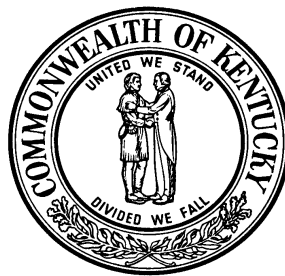


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME II

**For the Year Ended
June 30, 2010**



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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

March 31, 2011

Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of the Commonwealth of Kentucky-Volume II for the year ended June 30, 2010. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Volume I was issued under a separate cover. Volume II contains the Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133, federal award findings and questioned costs identified during our audit, and the summary schedule of prior audit findings.

The Auditor of Public Accounts also calculates a dollar threshold, based on OMB Circular A-133 guidance, to determine the federal programs to be audited for internal controls and compliance. For FY 10, the threshold for auditing federal programs was \$34.9 million.

On behalf of the Office of Financial Audits of the Auditor of Public Accounts' Office, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Sally Hamilton, Executive Director, Office of Financial Audits, or me.

Respectfully submitted,

A handwritten signature in black ink, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts



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INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2010**

Single Audit

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

SSWAK - Volume I contains financial reporting information based on our audit of the CAFR. It includes the APA's opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements, the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and financial statement findings related to internal control and compliance.

SSWAK - Volume II contains elements required under OMB Circular A-133, including the *Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*, and the Schedule of Findings and Questioned Costs.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the type of audit reports issued and lists major programs audited. The Financial Statement Findings section is reported in SSWAK Volume I. The Federal Award Findings and Questioned Costs, presented within this report, lists findings related to federal awards. For the Federal Award Findings, material weaknesses and material instances of noncompliance are presented first, then significant deficiencies and reportable instances of noncompliance.

Summary Schedule of Prior Audit Findings

Audit findings related to federal awards reported in the Schedule of Findings and Questioned Costs for FY 09, as well as any previous federal awards findings that have not been resolved in the past three fiscal years, are reported in the Summary Schedule of Prior Audit Findings for FY 10.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior audit finding was a significant deficiency or a material weakness or noncompliance. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)**

Audit Approach

The scope of the statewide single audit for FY 10 included:

Financial

- An audit of the basic financial statements and combining financial statements;
- Limited procedures applied to required supplementary information;
- An audit of the SEFA sufficient to give an opinion in relation to the basic financial statements;
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants, and tests of internal controls, where applicable;
- Findings related to internal control and compliance over financial reporting, when noted during the audit of the CAFR.

Federal Awards

- An audit of compliance with the compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each major federal program; and
- Test of internal control over compliance in accordance with OMB Circular A-133.

Component Units

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending federal awards. The Commonwealth has elected to exclude discretely presented component units from the statewide single audit, except as part of the audit of the basic financial statements. Thus, discretely presented component units are not included in the report on compliance and internal control and corresponding Schedule of Findings and Questioned Costs. It should be noted, however, that these entities are still required to have audits performed in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, if applicable.

LIST OF ABBREVIATIONS/ACRONYMS

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2010**

ADO	Annual Disclosures of Ownership
AF	Air Force
AOA	American Osteopathic Association
APA	Auditor of Public Accounts
ARRA	American Recovery and Reinvestment Act
CA	Cooperative Agreement
CAFR	Comprehensive Annual Financial Report
CAQH	Counsel for Affordable Quality Healthcare
CCDF	Childcare and Development Fund
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHFS	Cabinet for Health and Family Services
CSBG	Community Service Block Grant
CSE	Child Support Enforcement
CSEPP	Chemical Stockpile Emergency Preparedness Program
DCBS	Department of Child Benefits Services
DCP	Division of Construction Procurement
DFO	Disaster Field Office
DFS	Division of Family Support
DGA	Division of General Accounting
DHS	US Department of Homeland Security
DMA	Department for Military Affairs
DMS	Department of Medicaid Services
DoD	US Department of Defense
DSR	Division of Service Regions
DWI	Department for Workforce Development
EBT	Electronic Benefits Transfer
EFO	Emergency Feeding Organization
eMARS	enhanced Management Administrative Reporting System
EOC	Emergency Operations Center
ERA	Eligible Recipient Agencies
FAC	Finance and Administration Cabinet
FAD	Family Alternatives Diversion
FEMA	Federal Emergency Management Agency
FMAP	Federal Medical Assistance Percentage
FSS	Field Services Supervisor
FY	Fiscal Year
ID	Identification
JCAHO	Joint Commission on Accreditation Healthcare Organization
K-TAP	Kentucky Transitional Assistance Program
KAMES	Kentucky Automated Management Eligibility System
KAR	Kentucky Administrative Regulations
KASES	Kentucky Automated Support and Enforcement System
KC	Kinship Care Program
KDA	Kentucky Department of Agriculture

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)**

KRS	Kentucky Revised Statutes
KY	Kentucky
KyDEM	Kentucky Department of Emergency Management
KyDMA	Kentucky Department of Military Affairs
KYTC	Kentucky Transportation Cabinet
LPA	Local Public Agency
MAP	Medical Assistance Program
MMIS	Medicaid Management Information Service
MOU	Memorandum of Understanding
MPAS	Medicaid Program Assistance Section
NG	National Guard
NPDB	National Practitioner Data Bank
OAS	Office of Administrative Services
OCSE	Office of Child Support Enforcement
OIG	Office of Inspector General
OLP	Office of Local Programs
OMB	Office of Management and Budget
ONA	Other Needs Assistance
OPA	Office of Policy and Audit
PA	Public Assistance
PAPS	Public Assistance Program Specialists
SAS	Statement on Auditing Standards
SEFA	Schedule of Expenditures of Federal Awards
SFSF	State Fiscal Stabilization Fund
SFY	State Fiscal Year
SNAP	Supplemental Nutrition Assistance Program
SRAA	Service Region Administrative Assistants
SSWAK	Statewide Single Audit of Kentucky
TANF	Temporary Assistance for Needy Families
TC	Transportation Cabinet
TEFAP	The Emergency Food Assistance Program
US	United States
USC	United States Code
Vol	Volume
WIA	Workforce Investment Act
WIC	Women, Infants, and Children

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

Report on Compliance With Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of the Commonwealth of Kentucky (Commonwealth) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2010. The Commonwealth's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth's compliance with those requirements.

As described in item(s) 10-DMA-54, 10-DMA-55, and 10-KDA-56 in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding subrecipient monitoring that are applicable to its DMA Chemical Stockpile and Emergency Preparedness Program and KDA Emergency Food Assistance Program. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.



Report on Compliance With Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133 (Continued)

In our opinion, except for the noncompliances described in the preceding paragraph, the Commonwealth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-CHFS-58, 10-CHFS-59, 10-CHFS-61, 10-DMA-63, 10-DMA-64, 10-DMA-65, 10-DMA-66, 10-DMA-67, 10-DMA-68, 10-FAC-69, 10-KDA-70, 10-KDA-71, 10-TC-72, 10-TC-73 and 10-TC-74.

Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-DMA-54, 10-DMA-55, and 10-KDA-56 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-CHFS-57, 10-CHFS-58, 10-CHFS-59, 10-CHFS-60, 10-CHFS-61, 10-CHFA-62,

Report on Compliance With Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133 (Continued)

10-CHFS-63, 10-CHFS-64 10-DMA-65, 10-DMA-66 10-DMA-67, 10-DMA-68, 10-FAC-69,
10-KDA-70, 10-KDA-71, 10-TC-72, 10-TC-73, and 10-TC-74 to be significant deficiencies.

We also noted certain immaterial instances of noncompliance and other matters involving internal control over compliance, which we have communicated to management in separate letters.

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit their responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, members of the legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

March 17, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Financial Statements: We issued unqualified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2010.

Compliance: In relation to the audit of the basic financial statements of the Commonwealth, the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth's internal control over financial reporting disclosed 52 significant deficiencies and one material weakness.

Federal Awards

Compliance: We issued a qualified opinion on the Commonwealth's compliance with the subrecipient monitoring requirements applicable to two of its major federal programs. The results of our auditing procedures disclosed 18 instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. We believe three of these instances of noncompliance are material.

Internal Control Over Compliance: Our consideration of the Commonwealth's internal control over compliance disclosed 18 significant deficiencies and three material weaknesses.

Identification of Major Programs

The Commonwealth identified clusters by gray shading.

Major Type A programs:

CFDA Program Title

Supplemental Nutrition Assistance Program Cluster:

10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for Special Nutrition Assistance Program
10.561	ARRA-State Administrative Matching Grants for Special Nutrition Assistance Program

Child Nutrition Cluster:

10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Identification of Major Programs (Continued)

Major Type A programs (Continued):

CFDA	Program Title
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
Community Development Block Grant-State-Administered Small Cities Program Cluster:	
14.228	Community Development Block Grants/States Programs and Non-Entitlement Grants in Hawaii
14.255	ARRA-Community Development Block Grants/States Programs and Non-Entitlement Grants in Hawaii
17.225	Unemployment Insurance
17.225	ARRA- Unemployment Insurance
Workforce Investment Act Cluster:	
17.258	WIA Adult Program
17.258	ARRA-WIA Adult Program
17.259	WIA Youth Activities
17.259	ARRA-WIA Youth Activities
17.260	WIA Dislocated Workers
17.260	ARRA-WIA Dislocated Workers
Highway Planning and Construction Cluster:	
20.205	Highway Planning and Construction
20.205	ARRA-Highway Planning and Construction
20.219	Recreational Trails Program
Title I, Part A Cluster:	
84.010	Title I Grants to Local Educational Agencies
84.389	ARRA-Title I Grants to Local Educational Agencies, Recovery Act
Special Education Cluster:	
84.027	Special Education-Grants to States
84.173	Special Education-Preschool Grants
84.391	ARRA-Special Education-Grants to States
84.392	ARRA-Special Education-Preschool Grants
Vocational Rehabilitation Services Cluster:	
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States
84.390	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act
State Fiscal Stabilization Fund Cluster:	
84.394	ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act
84.397	ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)**Identification of Major Programs (Continued)**Major Type A programs (Continued):**CFDA Program Title**

Immunization Cluster:

93.268 Immunization Grants

93.712 ARRA-Immunization

Temporary Assistance for Needy Families Cluster:

93.558 Temporary Assistance for Needy Families

93.714 ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program

Child Care Cluster:

93.575 Child Care and Development Block Grant

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

93.713 ARRA-Child Care and Development Block Grant

93.658 Foster Care-Title IV-E

93.659 Adoption Assistance

Medicaid Cluster:

93.775 State Medicaid Fraud Control Units

93.777 State Survey and Certification of Health Care Providers and Suppliers

93.778 Medical Assistance Program

93.778 ARRA-Medical Assistance Program

Major Type B programs:**CFDA Program Title**

10.558 Child and Adult Care Food Program

Emergency Food Assistance Cluster:

10.568 Emergency Food Assistance Program (Administrative Costs)

10.568 ARRA-Emergency Food Assistance Program (Administrative Costs)

10.569 Emergency Food Assistance Program (Food Commodities)

12.401 National Guard Military Operations and Maintenance (O&M) Projects

Fish and Wildlife Cluster:

15.605 Sport Fish Restoration Program

15.611 Wildlife Restoration

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)**Identification of Major Programs (Continued)**Major Type B programs (Continued):

CFDA	Program Title
20.509	Formula Grants for Other Than Urbanized Areas
20.509	ARRA-Formula Grants for Other Than Urbanized Areas
84.013	Title I Program for Neglected and Delinquent Children
93.563	Child Support Enforcement
93.563	ARRA-Child Support Enforcement
Community Services Block Grant Cluster:	
93.569	Community Services Block Grant
93.710	ARRA-Community Services Block Grant
93.667	Social Services Block Grant
97.040	Chemical Stockpile Emergency Preparedness Program

Dollar Threshold Used To Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$34.9 million.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

See SSWAK Volume I for the FY 10 Financial Statement Findings 1 through 53.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-54: The Department Of Military Affairs Should Strengthen Internal Controls To Ensure Compliance With CSEPP Subrecipient Monitoring Requirements

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040-Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$0

During FY 10 we audited the Kentucky Department of Military Affairs (KYDMA) Emergency Management's (KyEM) Chemical Stockpile Emergency Preparedness Program (CSEPP). As part of our work, we discovered multiple instances of poor internal controls and noncompliance with regulations over subrecipient monitoring. CSEPP subrecipients consist of ten counties surrounding the Bluegrass Army Depot in Richmond, Kentucky.

KyEM is required to conduct onsite visits as part of its subrecipient monitoring. KyEM's CSEPP branch calls these visits Trip Reports and conducts them twice a year for each subrecipient. During these Trip Reports, KyEM reviews a sample of equipment purchased by or assigned to the subrecipient with CSEPP funds. This sample is selected from a list maintained by KyEM staff that is updated through the 1801 reimbursement process. Subrecipients are not aware of the equipment selected before the Trip Report. KyEM examines the equipment to determine it exists, matches specifications from the 1801, and is ready for deployment. KyEM documents this with photographs of the equipment and a written summary of the visit. When we reviewed KyEM's Trip Reports we found the following items of concern:

Laurel County 6/15/09 Trip Report:

- The CSEPP Property Officer's (PO) report stated he noticed one trailer, purchased as a mass purchase of trailers by the Laurel County CSEPP director, was different from the others purchased. The PO ran a title check on the trailer and discovered the trailer was titled to another person. The report states that the CSEPP Property Officer tried to contact the owner listed with no success. There is no documented reason to justify Laurel County presenting a trailer for reimbursement as new that is actually titled to a private citizen. The auditor could not determine why KyEM did not continue this investigation and require resolution of these findings. This property purchase was identified as questionable in previous audits, and therefore is a high fraud risk.
- This report also contains information regarding a separate visit to Laurel County during which KyEM was provided a list of missing equipment. The trip report does not document further inspection if the equipment was later found or if replacement equipment was purchased. This equipment was also related to the mass trailer/equipment purchase mentioned above.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-54: The Department Of Military Affairs Should Strengthen Internal Controls To Ensure Compliance With CSEPP Subrecipient Monitoring Requirements (Continued)

Laurel County 6/2/10 Trip Report:

- Included with this report is the photograph of the side of a trailer that was identified as the property of Laurel County, which had been purchased with CSEPP funds. The photograph shows “Bull of the Woods” faded into the side of the trailer, which is the name of a construction company owned by the former Laurel County CSEPP director. The trip report does not mention this photograph. Upon inquiry, the Branch Manager stated he informed the FBI about the photographs, but did not indicate when that notification took place or who he contacted, nor was this information included in the report.
- Also, the CSEPP Property Officer sent a memo to the CSEPP Branch Manager with the results of the title search after the trip report. This memo states the trailer was white. All the trailers documented during the 6/2/10 trip report are black. None of the trip reports indicate KyEM staff noticed this or followed up on how the trailer color changed.

Laurel County 9/13/10 Trip Report:

- Included with this report is a photograph of a light tower with what appears to be a flat tire. The trip report states “Inspected all above items and found that all equipment issued to or purchased by Laurel County was in good condition, well maintained, clean and was ready for deployment.” The Branch Manager indicated that the FBI was visiting to inspect the equipment on the next day, and therefore the Laurel County staff did not want to alter the equipment until after their visit. However, the trip report did not mention this, or any follow up regarding the equipment’s readiness.

In FY 10 we continue to see the deficiencies related to CSEPP compliance and internal controls at KyEM. The findings released in the FY 08 and FY 09 audits identified deficiencies of KyEM to thoroughly monitor subrecipients, and to act on indications of fraud/misuse.

KyEM’s Trip Reports appear to document potential fraud and misuse of CSEPP funds. However, due to the lack of effective monitoring, KyEM cannot provide evidence of the steps it took to follow up and bring the situations to a resolution. These deficiencies result in continued ineffective administration of the CSEPP program, and increase the risk of fraud, waste and abuse by subrecipients. Due to the problems identified in this finding, as well as deficiencies reported in a separate finding related to CSEPP’s subrecipient monitoring, KyEM is not compliant with applicable requirements related to subrecipient monitoring for CSEPP.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-54: The Department Of Military Affairs Should Strengthen Internal Controls To Ensure Compliance With CSEPP Subrecipient Monitoring Requirements (Continued)

44 CFR Part 13 §13.40 Monitoring and reporting program performance states in part:

- (a) Monitoring by grantees. Grantees are responsible for managing the day to day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Recommendation

We make the following recommendations to the Department of Military Affairs Division of Emergency Management:

- KyEM should implement procedures to improve its subrecipient monitoring process. KyEM should create controls to ensure the proper documentation of issues when found and documentation of the communication of that information throughout the chain of commands. KyEM should be able to provide specific documentation of communications of specific concerns to law enforcement officials, the federal grantor, and/or the APA.
- KyEM should encourage staff to approach their job with professional skepticism with the goal of efficient and effective administration of CSEPP funds. KyEM should convey to staff the importance of not just detecting fraud/misuse, but the importance of discouraging fraud/misuse by enforcing strong control.

Management's Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for subrecipient monitoring is to provide reasonable assurance that Federal grant award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, the impact of any subrecipient noncompliance on the pass-through entity is evaluated, and subrecipients obtain required audits and take appropriate corrective action on audit findings. The department's current internal control environment, effected by executive management, establishes executive management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-54: The Department Of Military Affairs Should Strengthen Internal Controls To Ensure Compliance With CSEPP Subrecipient Monitoring Requirements (Continued)

Management's Response and Corrective Action Plan (Continued)

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department and concurs with the auditor's finding.

KyDEM-CSEPP program manager will continue to improve established policies and procedures to conduct bi-annual on-site visits to verify equipment specifications, conditions and serviceability on open CSEPP grants and programs for required essential equipment. During on-site visits, any report of or suspected fraud, waste and/or abuse will be forwarded to State and FEMA officials as well as law enforcement when warranted.

KyDEM-CSEPP program manager will work with the KyEM Subrecepting monitoring team to review procedures and processes to insure proper verification of equipment specifications, conditions and serviceability

KyDEM will follow up on site visits that require additional information or documentation.

KyDEM subrecipient section has established guidance for all site visits.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-55: The Department Of Military Affairs Should Ensure CSEPP Subrecipient Reimbursement Requests Are Properly Reviewed And Include Valid Supporting Documentation

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040-Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$7,691

During the FY 10 audit of Kentucky Emergency Management's (KyEM) Chemical Stockpile Emergency Preparedness Program (CSEPP), we discovered multiple instances of poor internal controls and noncompliance with regulations. These deficiencies centered around the reimbursements and monitoring of subrecipients for CSEPP. CSEPP subrecipients consist of ten counties surrounding the Bluegrass Army Depot in Richmond, Kentucky.

Subrecipients can request reimbursement for CSEPP related expenditures using an 1801 reimbursement form. These forms must be signed by the subrecipient's CSEPP director and must have supporting documentation. We reviewed the documentation supporting the reimbursement requests, and noted the following questionable costs associated with these reimbursements:

- Powell County: We questioned a total of \$626 of expenditures submitted for reimbursement due to a lack of appropriate or legible documentation and questions as to whether the expenditure is necessary for the administration of the grant. Also, it appears several of the invoices had been tampered with. Examples of these items include:
 - Account statements provided as support, rather than evidence indicating the amount was paid;
 - Invoices totaling \$233 for the purchase of groceries, one having a receipt that had the merchant name cut off;
 - An invoice for decals totaling \$136 with the name of the business and date cut off;
 - An invoice for \$170 related to a \$202 reimbursement request.
- Jackson County: We questioned a total of \$3,600 of expenditures submitted on two separate reimbursement requests for Jackson County. The county submitted check stubs, not check copies or invoices, as supporting documentation for rental payments. Also, the check stubs indicated the two checks were written for \$1,500 each, for a total of \$3,000. Since the amounts did not agree to the requests for reimbursement, the auditor followed up with the KyEM CSEPP Branch Manager. The CSEPP Branch Manager provided a copy of a letter dated February 3, 2010 between the landlord and the county treasury for a \$300 retroactive rent increase applied from October 2009 through January 2010 totaling \$1,200, and a grand total due of \$3,000. The CSEPP Branch Manager provided additional information obtained from Jackson County, but the information could not be reconciled back to the reimbursement request, nor could the \$600 difference between the supporting documentation and the reimbursement be sufficiently

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-55: The Department Of Military Affairs Should Ensure CSEPP Subrecipient Reimbursement Requests Are Properly Reviewed And Include Valid Supporting Documentation (Continued)

explained by the CSEPP Branch Manager. Furthermore, the auditor did not receive an explanation regarding the allowability of a retroactive rental increase, or an explanation as to why the county continued to pay \$1,500 in rental payments after it became aware of a rent increase.

- Clark County: We initially questioned a total of \$227 related to a reimbursement request submitted by Clark County due to insufficient supporting documentation for two items. KyEM was able to subsequently provide the documentation to support these amounts, but it could not explain why the reimbursement was paid prior to receipt of adequate supporting documentation. Since these invoices were provided to the auditor, this amount is not included as questioned costs.
- Rockcastle County: We questioned costs totaling \$87 for Rockcastle County due to insufficient documentation and unclear justification as to the allowability of the expenses. Examples of the problems noted with the supporting documentation included:
 - Four receipts were related to food charges, such as pizza, sandwiches, and donuts with no explanation of the necessity of the purchases. These receipts also indicated sales tax was paid.
 - Two of the four receipts above were for purchases of meals on separate days. The receipts were labeled “Fire Chief’s Meeting”. Although meals are allowable under the EX benchmark of the Cooperative Agreement, meals are restricted to volunteers for training exercises. KyEM could not provide the additional supporting documentation to prove these costs were allowable.
 - One of the four receipts noted contained a printed notation that the receipt was preliminary, and that the transaction was not complete. A final receipt was not included.
- Estill County: We questioned a total of \$3,148 related to expenditures for payments to individuals who performed night watchman duties at a radio tower construction site and payments for equipment rental. The supporting documentation related to the watchman duties was a list of names, dates, and rates, but did not contain signatures from either the employees or the Estill County official approving the payment. The county also provided a copy of checks, but did not copy the back of the checks to verify endorsements. Also, the equipment rental receipt provided as supporting documentation contained information that was not legible, preventing the auditor from determining the allowability of the cost for CSEPP. Although these activities may have been allowable, the supporting documentation was not sufficient to permit proper monitoring or to protect the program from the potential for fraud or abuse.

As noted in previous audits, deficiencies continue to exist related to CSEPP compliance and internal controls over federal program requirements. The findings released in the FY 08 and FY 09 audits outlined KyEM’s deficiencies in thoroughly scrutinizing reimbursement requests and acting on

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-55: The Department Of Military Affairs Should Ensure CSEPP Subrecipient Reimbursement Requests Are Properly Reviewed And Include Valid Supporting Documentation (Continued)

indications of fraud/misuse. Previous audit findings suggested recommendations to improve monitoring of subrecipients, which do not appear to have been properly implemented.

The lack of effective internal controls to adequately review subrecipient reimbursement requests leads to the program paying for questionable expenditures. KyEM's CSEPP branch has weak controls that failed to identify inadequate supporting documentation and unallowable costs. Furthermore, auditors believe that problems noted in this finding are pervasive, and therefore actual questioned costs could be higher than detected in our sample. Due to these weaknesses, as well as additional subrecipient monitoring deficiencies reported in a separate finding, DMA is not compliant with subrecipient monitoring requirements applicable to CSEPP.

2 CFR Part 225, Cost Principles for State, Local, and Indian tribal Governments (formerly OMB Circular A-87), C. Post Award Administration, 3. Monitoring states in part:

The recipient is responsible for monitoring award activities, to include sub-awards, to provide reasonable assurance that the Federal award is administered in compliance with requirements. Responsibilities include the accounting of receipts and expenditures, cash management, maintaining of adequate financial records, and refunding expenditures disallowed by audits.

44 CFR Part 13; Subpart C-Post-Award Requirements; Financial Administration states in part:

§13.20 Standards for financial management systems.

A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contracts, must be sufficient to-Permit preparation of reports required by this part and the statutes authorizing the grant, and Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-55: The Department Of Military Affairs Should Ensure CSEPP Subrecipient Reimbursement Requests Are Properly Reviewed And Include Valid Supporting Documentation (Continued)

Recommendation

We make the following recommendations to the Department of Military Affairs Division of Emergency Management:

- KyEM should take review it process for monitoring subrecipients and take steps to implement strong internal controls to ensure efficient and effective subrecipient monitoring procedures.
- KyEM should continue to evaluate the 1801 reimbursement process. KyEM should ensure employees have appropriate knowledge of allowable and unallowable costs stated in the Cooperative Agreement and federal guidelines. KyEM should also ensure employees are aware of adequate supporting documentation requirements.
- KyEM management should establish a tone that encourages compliance and good stewardship of state and federal funds, and remind employees to approach their job with professional skepticism with the goal of efficient and effective administration of CSEPP funds. KyEM should convey to staff the importance of not just detecting fraud/misuse but the importance of discouraging fraud/misuse by enforcing strong internal controls.

Management's Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for subrecipient monitoring is to provide reasonable assurance that Federal grant award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, the impact of any subrecipient noncompliance on the pass-through entity is evaluated, and subrecipients obtain required audits and take appropriate corrective action on audit findings. The department's current internal control environment, effected by executive management, establishes executive management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department and concurs, completely, with the auditor's finding.

By 1 June 2011, KyDEM-CSEPP program manager will conduct an internal review of expenditures and require the repayment of ineligible expenses. Also, will establish strong procedures to ensure staff has appropriate knowledge of allowable and unallowable costs stated in the Cooperative Agreement and the guidelines in 2 CFR Part 225 by working with the KyDEM

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-55: The Department Of Military Affairs Should Ensure CSEPP Subrecipient Reimbursement Requests Are Properly Reviewed And Include Valid Supporting Documentation (Continued)

Management's Response and Corrective Action Plan (Continued)

subrecipients team to insure proper training and understanding of procedures with proper verification of receipts.

By 1 June 2011, KyDEM-CSEPP program will provide updated training to the CSEPP counties by communicating these expectations to subrecipients on allowable and unallowable costs stated in the Cooperative Agreement and the guidelines in 2 CFR Part 225.

KyDEM-CSEPP program manager will continue to improve established policies and procedures to include conduct bi-annual on-site visits to verify equipment specifications, conditions and serviceability on open CSEPP grants and programs for required essential equipment. During on-site visits, any report of or suspected fraud, waste and/or abuse will be forwarded to State and FEMA officials as well as law enforcement when warranted.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 10-KDA-56: Kentucky Department Of Agriculture Should Implement And Follow Formal Policies And Procedures For Subrecipient Monitoring

State Agency: Department of Agriculture

Federal Program: CFDA 10.568-Emergency Food Assistance Program (Administrative Costs)
CFDA 10.569-Emergency Food Assistance Program (Food Commodities)

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$0

During our FY 10 audit testing of controls over compliance of The Emergency Food Assistance Program (TEFAP) administered by Kentucky's Department of Agriculture (KDA), we requested the list of Eligible Recipient Agencies (ERAs-food banks) and Emergency Feeding Organization (EFOs-food pantries) monitored on-site during the fiscal year. The monitoring process was not completed by KDA as noted by the following problems:

- The monitoring tracking log demonstrated only eight of the required 20 pantries were reviewed during the fiscal year.
- Of those eight EFOs (food pantries) reviewed per the tracking log, only four reports were documented in file. These copies had no signatures indicating who performed the review, no dates indicating when the report was conducted or dates reports were submitted to EFOs to determine whether it was final.
- We were able to review four EFOs (food pantries) reports in word or excel format. One of these reports contained a discrepancy which required a follow-up action. There was no evidence of follow-up action by either KDA or the food pantry.
- There was only documentation that one of two required food banks received an on-site review.
- There was no documentation of management review of the monitoring reports issued.

KDA's internal controls over subrecipient monitoring were not sufficient to ensure that all required reviews were completed, deficiencies were followed up on, supporting documentation was maintained, and monitoring reports were reviewed and approved by management at KDA. As a result KDA did not comply with Federal Compliance requirements over subrecipient monitoring for the TEFAP program.

Per OMB Circular -A-133 Compliance Supplement for TEFAP for Subrecipient Monitoring:

A State agency must make on-site reviews of ERAs under its oversight and of distribution sites operated by such ERAs, in accordance with its distribution plan. At a minimum, the State agency's annual review coverage must include 25 percent of the ERAs that operate TEFAP as a subrecipient of the State agency and one-tenth or 20

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 10-KDA-56: Kentucky Department Of Agriculture Should Implement And Follow Formal Policies And Procedures For Subrecipient Monitoring (Continued)**

(whichever is less) of the ERAs that operate TEFAP as subrecipients of other ERAs in the State. To the maximum extent practicable, review scheduling should enable State agency staff to observe TEFAP commodity issuance and prepared meal service operations (7 CFR section 251.10(e) (2)).

Good internal control dictates that supporting documentation should be maintained to support the on-site reviews conducted, the conclusions reached, approval of those reports by management, the communication of those reports to the monitored entity, and follow-up of any problems noted during the reviews.

Recommendation

We recommend KDA create written procedures related to the required on-site monitoring of food banks and food pantries. These procedures should ensure that KDA staff plans and tracks the monitoring of the required number of subrecipients and required follow-up of any findings that result from on-site monitoring. These procedures should also include management review of on-site monitoring reports. Further KDA should ensure that documentation of the on-site monitoring visits are maintained in a format that prevents any changes being made and supports the timely completion of the monitoring procedures.

Management's Response and Corrective Action Plan

We concur that we were deficient on the monitoring of the subrecipient agencies and will make sure that all required reviews of sub recipient agencies are done in a timely manner going forward. Management has developed a tracking tool to monitor the review procedure. This tracking device will follow a review from the time it is due, all the way through to scheduling follow up reviews and any findings together with the correction of those findings. The responsibility of posting reviews has been moved from the Branch Manager to the Training Development Specialist II who will convert them in to pdf format. Due to some vacancies in the Division, we have initiated a more in depth check and balance system that will have more than one person access to reviews both pending and complete.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-57: The Cabinet For Health And Family Services Should Ensure Annual On-Site Inspections Are Performed For All Non-Deemed Hospitals

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 93.777-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA 93.778-Medical Assistance Program

CFDA 93.778-ARRA-Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$0

During the FY 2010 Medicaid audit, we tested 18 Non-Deemed Hospitals for compliance with Provider Health and Safety Standards. Non-Deemed Hospitals are not accredited by an approved accrediting organization, such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) or the American Osteopathic Association (AOA). The purpose of JCAHO is to promote specific improvements in patient safety. The AOA promotes public health, encourages scientific research, and has federal authority to accredit hospitals and other health care facilities. Of the 18 Non-Deemed Hospitals tested, we noted the following exceptions:

- Two Non-Deemed Hospitals have not had their annual licensing inspection since September 2007.
- One Non-Deemed Hospital has not had an annual licensing inspection since October 2007.
- One Non-Deemed Hospital has not had an annual licensing inspection since August 2008.

A licensing inspection must be performed annually for hospitals that are not accredited to ensure adequate patient care. Since the annual on-site licensing inspections have not been conducted for these Non-Deemed Hospitals, CHFS is not in compliance with the Provider Health and Safety Standards and cannot be assured that providers are providing acceptable care for patients.

The annual on-site licensing inspections are not being conducted due to cuts in staffing.

When Provider Health and Safety Standards are not adhered to, CHFS is not in compliance with Federal Regulations. In addition, if CHFS Office of Inspector General does not perform the annual inspections, CHFS cannot be assured that non-deemed hospitals are in compliance with the Provider Health and Safety Standards.

The U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services defines accredited hospitals as, “A hospital accredited by the Joint Commission or AOA.”

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-57: The Cabinet For Health And Family Services Should Ensure Annual On-Site Inspections Are Performed For All Non-Deemed Hospitals (Continued)

Kentucky Revised Statute 216B.185 (1) states,

- (1) The Office of the Inspector General shall accept accreditation by the Joint Commission on Accreditation of Healthcare Organizations or another nationally recognized accrediting organization with comparable standards and survey processes that has been approved by the United States Centers on Medicare and Medicaid Services, as evidence that a hospital demonstrates compliance with all licensure requirements under this chapter. An annual on-site licensing inspection of a hospital shall not be conducted if the Office of the Inspector General receives from the hospital:
 - (a) A copy of the accreditation report within 30 days of the initial accreditation and all subsequent reports; or
 - (b) Documentation from a hospital that holds full accreditation from an approved accrediting organization on or before July 15, 2002.

Recommendation

We recommend CHFS ensure annual on-site inspections are performed on all non-deemed hospitals.

Management's Response and Corrective Action Plan

Surveys have been scheduled for the facilities in question.

The audit findings indicated that the annual on-site licensing inspections were not conducted due to "cuts in staffing". This statement is incorrect. The Office of Inspector has experienced significant staff turnover and retirements, which have led to increased vacancies, but staffing has not been "cut". OIG has also experienced difficulty in recruiting new nurses due to the high demand for nurses generally, the significant overnight travel that the surveys require, and the fact that state government is at a disadvantage when competing with the private sector for nurses since state government cannot offer the same salary, bonus and recruitment packages as private health care providers. To address these issues, the OIG has recently implemented a staffing plan focusing on recruitment, training, and retention of nurse consultant inspectors as well as other survey staff. Early indications are that these changes are resulting in more candidates appearing on state employment registers for nurse consultant inspectors. Other recent actions to increase retention include providing electronic reference and data input devices to surveyors in the field, restructuring business processes in the field and use of temporary staff to assist in survey of less complex facilities in order to keep surveys up-to-date.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-58: The Cabinet For Health And Family Services Should Maintain Supporting Documentation In Accordance With The State Plan

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 93.777-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA 93.778-Medical Assistance Program

CFDA 93.778-ARRA-Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$0

During the FY 2010 Medicaid audit, we tested a sample of 90 Medical Assistance Program cases for compliance with the approved State Plan. We tested member eligibility requirements at the Department for Community Based Services (DCBS) offices located in seventeen counties: Bell, Bullitt, Carlisle, Clinton, Elliott, Floyd, Gallatin, Garrard, Henderson, Jefferson, Kenton, Madison, Mason, McCracken, Simpson, Spencer and Wolfe. Of the 90 cases selected for testing, twenty case files did not contain the required documentation to support member eligibility. The exceptions are as follows:

Twenty cases were missing the MA-2 Medicaid Penalty Warning, which is signed by members to acknowledge the potential for prosecution for committing fraud:

- One case from Bell, Floyd, Henderson, Kenton, McCracken, and Simpson
- Two cases from Bullitt and Clinton
- Three cases from Gallatin and Spencer
- Four cases from Jefferson

Ten cases were missing the PAFS-203 Checklist of Factual Information Provided, which is signed by members to acknowledge that pertinent information was received for participating in the Medicaid program:

- One case from Floyd, Henderson, Kenton, McCracken and Simpson
- Two cases from Gallatin
- Three cases from Spencer

Since documentation was missing from 20 of the 90 cases reviewed, CHFS is not in compliance with the State Plan.

The required documentation was not obtained or pulled forward in the current year certification packet with the case folder by the local DCBS office.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-58: The Cabinet For Health And Family Services Should Maintain Supporting Documentation In Accordance With The State Plan (Continued)

When member eligibility procedures in the State Plan are not adhered to, CHFS is not in compliance with Federal Regulations. In addition, if DCBS offices do not maintain adequate case records, CHFS cannot be assured that benefits are being issued to eligible recipients.

Per CHFS, DCBS Operation Manual Volume IV under Application Interview:

- A. Inform all individuals of their rights and responsibilities at the time of application and recertification.
 1. Provide the individual with informational pamphlets such as; Hearings, Civil Rights, Medicaid, EPSDT, WIC, child and spousal support, etc. and complete form PAFS-203, Checklist of Factual Information Provided.
 8. Explain MA IPV policy and penalties according to MS 1750 through 1795.

A local office memo dated May 16, 2008 regarding Medicaid Program Violations with instruction in paragraph three as follows: “Ensure that form MA-2, Medicaid Penalty Warning, is signed by and explained to all Medicaid applicants, recipients or interested parties at every application and member add. File the original in the case record, and pull forward and review the form with the recipient at each recertification.

Good internal controls dictate that adequate supporting documentation is maintained to support member eligibility for program benefits.

Recommendation

We recommend CHFS DCBS offices maintain appropriate documentation to support member eligibility in accordance with the State Plan.

Management’s Response and Corrective Action Plan

A listing of the cases found in non-compliance has been sent to the Program Specialist in the respected regions for correction. The Program Specialist in each of the regions affected reviewed current policy with each staff person involved.

Additionally, the Medicaid Program Assistance Section (MPAS) is currently traveling to each region and reading cases in the two counties within each region having the highest error rate. Subsequent to the case readings, an exit interview with management in the region is conducted 30 days after conclusion of the case readings. MPAS is already addressing this issue while completing the case review process. At the time MPAS addresses its noncompliance findings with each region, MPAS will also address the noncompliance noted by the APA in this audit, emphasizing the importance of staff following policy and maintaining compliance with the Federal Regulations.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-59: The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 93.777-State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA 93.778-Medical Assistance Program

CFDA 93.778-ARRA-Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$0

The Department for Medicaid Services is required to maintain case files on each eligible Medicaid provider in accordance with state and federal regulations. The provider eligibility case files are scanned into the On-Base system. We tested a sample of 60 provider case files in the On-Base system for compliance with Medicaid Provider Eligibility requirements set forth in the State Plan and noted the following exceptions:

- Fifty-four disclosures of ownership were not updated annually; and, CHFS did not terminate the provider's participation in the Medicaid Program, in accordance with 907 KAR 1:672, Section 3.
- One application or provider agreement could not be located in the On-Base system.
- Twenty-one providers with old provider agreements or applications that were over the three-year re-credentialing requirement.

The required documentation was not obtained from the providers and scanned into the On-Base system to update the provider case files.

We cannot determine if these providers were eligible to participate in the Medicaid program. When the procedures in the State Plan are not adhered to, CHFS is not in compliance with state regulations at 907 KAR. In addition, if current provider case files are not maintained, CHFS cannot be assured that providers receiving payments are eligible to participate in the Medicaid program.

907 KAR 1:671 Section 1, Definitions, Paragraph 7 states,

"Application" means the completion and submission of a Medicaid provider agreement and all required addendum and documentation specific to a provider type, which is the contract between the provider and the department for the provision of Medicaid services.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-59: The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan (Continued)

907 KAR 1:672, Sections 2 and 3 state:

Section 2. Enrollment Process for Provider Participation in Medicaid.

- (2) To apply for enrollment in the Medicaid Program as a non-credentialed provider, an individual or entity shall:
 - (a) Complete, and submit to the department, the non-credentialed provider section of a MAP-811, Provider Application; and,
 - (b) Submit of a valid professional license, registration, or certificate that allows the:
 1. Individual to provide services within the individual's scope of practice; or
 2. Entity to operate or provide services within the entity's scope of practice.

Section 3. Required Provider Disclosure:

- (1) A provider shall comply with the disclosure of information requirements contained in 42 C.F.R. 455.100 through 455.106 and KRS 205.8477.
- (2) Time and manner of disclosure. Information disclosed in accordance with 42 C.F.R. 455.100 through 455.106 shall be provided:
 - (a) Upon application for enrollment;
 - (b) Annually thereafter; and
 - (c) Within 35 days of a written request by the department or the United States Department of Health and Human Services.
- (3) If a provider fails to disclose information required by 42 C.F.R. 455.100 through 455.106 within 35 days of the department's written request, the department shall terminate the provider's participation in the Medicaid Program in accordance with 907 KAR 1:671, Section 6, on the day following the last day for submittal of the required information.

Recommendation

We recommend CHFS:

- Ensure all documentation required to support provider eligibility is updated and scanned into the On-Base system.
- Comply with the provisions of 907 KAR 1:672 Section 3, which requires termination of the provider's participation in the Medicaid program on "the last day for submittal of the required information," if all applicable information is not disclosed.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-59: The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan (Continued)

Management's Response and Corrective Action Plan

- The first area of concern is that Annual Disclosures of Ownership (ADO) have not been updated and providers have not been terminated. In 2005, under a different administration, the decision was made to outsource provider enrollment and the Department ceased the processing of ADO's as this was a duty of the vendor. When provider enrollment was brought back in-house in January 2009, the processing of ADO's was re-implemented. There are 53 provider types that require ADO's and to date the Department for Medicaid Services has begun the process for 16 of those provider types. Each month additional provider types are rolled out, with the intent of having all provider types addressed by the end of 2011. When provider enrollment was brought back in-house to DMS, many system changes had to be undertaken; some of which are still being implemented. For the first 6 months, the sole focus was basic enrollment functions. After establishing a branch and functional MMIS, duties could be extended beyond the bare minimum enrollment requirements. Moreover, due to the fact that the Commonwealth has limited staff to complete all enrollment functions, it was an administrative necessity to spread the implementation of all provider types out over a period of several months. Because each provider type requires annual update, the burden of immediate re-implementation of all provider types at once would have been an administrative burden. Further, because DMS made the decision in 2005 to outsource the provider enrollment function, it would be inappropriate to penalize the providers.*

The Plan of Correction has been underway since mid-2009, whereby a different provider type is released each month and again annually for subsequent years. At a rate of 1.76 provider types per month the re-implementation will be completed by the end of 2011. As we roll out provider types we hold the provider accountable per 907 KAR 1:671.

- The second area of concern was that the APA could not locate a provider agreement in OnBase. We are attempting to locate the provider agreement through a search of hard copy files. If the provider is recently enrolled the file may not have been imaged in OnBase yet, as it takes several days. It should also be noted that if the provider was enrolled many years ago, they would not have been imaged in OnBase because OnBase did not exist. As we do re-credentialing we add the newest application to OnBase.*

The Plan of Correction will include locating a hard copy of the file and having it imaged in OnBase. That application will be furnished to the APA auditor as soon as possible.

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FINDING 10-CHFS-59: The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan (Continued)

Management's Response and Corrective Action Plan (Continued)

- *The third area of concern was that 21 providers had old provider agreements or applications that were over the three year re-credentialing requirement. The APA indicated that because the applications could not be located in OnBase there was no way to ensure that the providers are eligible to participate in Medicaid and to receive payments.*

907 KAR 1:672 Section 2, No. 9 states,

“Recredentialing. A credentialed provider currently enrolled in the Medicaid Program shall submit to the department's recredentialing process three (3) years from the date of the provider's initial evaluation or last reevaluation”.

DMS contends that it is in compliance with this regulation based on internal policies and procedures. The recredentialing process is not outlined in regulation, therefore we request that the APA delineate what is specifically lacking. DMS ensures that all licensure and certification is updated per the standards of the governing licensure boards for each provider type and in accordance with the Office of the Inspector General's licensure and survey standards. In many cases licensure and survey certifications are updated yearly, thereby exceeding the three year recredentialing standards. On an ongoing basis, the MMIS monitors sanctions through an interface with the CMS Medicare Exclusion Database. Each time a Change of Ownership occurs, an Annual Disclosure of Ownership is required prior to enrollment. And, by year end the ADO process will be fully implemented so that each provider type required to submit an ADO will be reviewed annually. Additional verifications are undertaken, such as utilization of the National Practitioner Data Bank (NPDB) and the Counsel for Affordable Quality Healthcare (CAQH). State licensure boards address malpractice incidents and further information can be obtained through the NPDB if required. Any questionable issues are reviewed by in-house medical staff.

While it is true that the applications should be imaged in OnBase, the lack of that image does not mean that the provider is not eligible to participate in Medicaid and to receive payments. Each provider type must undergo licensure and certification review at a specified time, depending on the type of provider involved. For instance, physicians are required to update their licensure yearly. If DMS does not obtain a license from the provider or through the KY Board of Medical Licensure license file, the provider number will be terminated. Entities such as hospitals undergo various surveys and certifications by the Office of the Inspector General (OIG). If the OIG finds that the hospital is out of compliance or that their licensure will not be renewed, DMS is immediately notified and

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Management's Response and Corrective Action Plan (Continued)

DMS will act accordingly to terminate the provider agreement. Additional interrogation of provider files is done on an ongoing basis for such things as sanctions and date of death, thus ensuring that providers and owners are reviewed.

DMS does not feel that a Plan of Correction is needed for this area other than to complete the full implementation of the ADO process for all provider types.

DMS would point out that older applications were not imaged in the late 70s – 90s and that credentialing was not required until the late 2000s. (This was explained to the APA when the APA review of Medicaid provider enrollment began in SFY 2007). If an application is chosen for review which falls into one of these categories, there is a greater likelihood that imaging will not be found.

Auditor's Reply

In its response, CHFS asks the auditors to delineate what specifically was noted as lacking in our finding. In order to be eligible to receive Medicaid payments, certain providers currently enrolled in the Medicaid Program are required to be credentialed, and then must adhere to the department's recredentialing process three years from the date of the provider's initial evaluation or last reevaluation. The initial credentialing process requires the completion of a MAP-811 Provider Application, as well as attachments to this application such as a completed evaluation/reevaluation form (KAPER-1). The recredentialing process should adhere to these same requirements since its intent is to identify changes that have occurred since the last evaluation. Specifically, we were unable to locate the MAP-811 Provider Applications or the KAPER-1, in the recredentialed provider files noted in our finding.

The auditor understands that some providers are not required to be recredentialed every three years, and all 21 exceptions noted related to providers that are required to be recredentialed. Also, although CHFS's response indicates it believes it currently adheres to the recredentialing regulations, the auditor's testing noted that all other tested provider files that were required to be recredentialed contained the appropriate documentation. Therefore, the procedures are not consistent for the 21 files identified in our finding.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-60: The Cabinet For Health And Family Services Should Update The KASES System

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 93.563-Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$0

The Cabinet for Health and Family Services' Office of Child Support Enforcement (CSE) is required to submit the OCSE - 34A - Collections Report to the Federal government annually. We tested the OCSE - 34A report reconciliation and noted the report information that is provided by the Kentucky Automated Support and Enforcement System (KASES) is manually corrected after it's submitted to CSE because of programming errors. The OCSE - 34A report requires the monies received or distributed internationally (Line 2) be reported, as well as the \$25 fee removed from Line 7d column E and 7d column F, Distributed and Undistributed. The fee is already accounted for and, if not removed from these lines, it will be included twice on the report. The agency risks overstating the amounts collected. Due to delays in programming updates, the employees have to manually change these amounts. CSE personnel are also still utilizing percentages to determine line 7 amounts.

This is an ongoing problem that was reported in the FY 08 and FY 09 audits.

Due to the employees having to manually input the amounts posted, the risk for errors and omissions increases. The OCSE-34A Report that is submitted to the Federal Government may be inaccurate.

Good internal controls dictate the underlying accounting records are the basis for collections reported to the Federal government.

Recommendation

We recommend CHFS take the appropriate steps to update the KASES system to ensure that information reported to the Federal government is accurate and complete.

Management's Response and Corrective Action Plan

The Child Support Enforcement (CSE) program welcomes the opportunity to address concerns raised in this record of control weakness referencing federal reporting on the OCSE 34A. The program recognizes the concerns and continues working with CHFS partners towards a successful resolution.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-CHFS-60: The Cabinet For Health And Family Services Should Update The KASES System (Continued)**

Management's Response and Corrective Action Plan (Continued)

As noted in prior year responses, CSE staff initially identified system concerns during preparation of the FFY 2007 fourth Quarterly Report of Collections (OCSE 34A) and began working with KASES staff to address the issues. In SFY 2010, these efforts culminated in the parallel release of a rewritten automated OCSE 34A report that addressed many, but not all, of the identified concerns.

During this same period, CSE began planning towards the implementation of a group of system enhancements, including a data warehouse/business intelligence solution with reporting capabilities that will provide for automated production of the OCSE 34A and 157 reports. Development on those enhancements began in August 2010 and is currently ongoing, with a planned completion date of fall 2011.

Until implementation of the business intelligence solution is complete, the data generated for the quarterly filing continues to be adjusted manually to account for identifiable variances that are not recognized by the existing report generation program.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-61: The Cabinet For Health And Family Services Should Ensure All Federal Financial Reports Are Adequately Reviewed Prior To Submission

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 93.575-Child Support Enforcement

CFDA 93.596-Child Care Mandatory and Matching Funds of the Child Care and Development Fund

CFDA 93.713-ARRA-Child Care and Development Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting and Matching, Level of Effort, Earmarking

Amount of Questioned Costs: \$0

The Cabinet for Health and Family Services (CHFS) is required to submit the ACF-696, Child Care and Development Fund (CCDF) Financial Report quarterly for the CCDF program. The report preparation process involves accounting for and reporting on different grant years and sub-function codes, gathering and analyzing data from the statewide accounting system, and making adjustments and corrections as needed.

We performed testing procedures over the ACF-696 reports from each of the open grant periods and noted the following errors:

- The 2009 grant for quarter ending 6/30/2010, reveals a reporting oversight on Lines 1(c) Earmark to Infant & Toddler and 1(d) Earmark to Quality Expansion on the ACF-696. The internal spreadsheet Year-To-Date Report used to develop the ACF-696 information includes the correct amount of ARRA funds. This amount was incorrectly transferred to the ACF-696 report, resulting in reporting the 2009 Grant ARRA funds (Line 1 - Total) incorrectly.
- The 2010 grant for quarter ending 6/30/2010, reveals a matching oversight in Column B on the ACF-696. State expenditures were matched at an incorrect Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year.

Due to the discrepancies noted, the ACF-696 reports that were submitted do not agree to supporting documentation. We could not verify the accuracy and completeness of the information that was reported to the Federal government.

Failure to maintain effective internal controls over the report preparation process and inadequate management review of Federal reporting could lead to significant accounting errors. These errors, when undetected, could lead to erroneous assumptions, reimbursements, noncompliance with Federal reporting requirements, and inaccurate financial data being reported to the Federal government.

Good internal control dictates the underlying accounting records are the basis for financial reports and that reports are adequately reviewed before they are submitted to the Federal government.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-61: The Cabinet For Health And Family Services Should Ensure All Federal Financial Reports Are Adequately Reviewed Prior To Submission (Continued)

The foundation for a good internal control system begins with a minimum of reconciling the amounts reported in financial reports to the accounting system. Reconciling ensures that Federal monies are being reported accurately and in accordance with program regulations.

Good internal controls dictate that rate information being reported is applicable for each fiscal year. Thus, ensuring Federal requirements are met and data needed to verify the states eligibility for Federal Matching funds is correctly stated.

OMB Circular A-133, Compliance Supplement, Part 3, "Reporting" indicates auditors should be able to review CHFS records and "...trace reported data elements to supporting worksheets or other documentation that link reports to the data."

OMB Compliance supplement, Part 3, "Matching" indicates a state is eligible for Federal matching funds for expenditures that exceed the State's MOE requirement. State expenditures will be matched at the Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year.

Recommendation

We recommend CHFS:

- Decrease probability of error by creating one supporting worksheet (taking the place of worksheets: Expenditures by Sub-Function report and the Year-To-Date report), which will decrease movement/transferring of data from worksheet to worksheet during the development of the ACF-696 report.
- Reconcile the ACF-696 report to the eMARS report during the review process to ensure the accuracy of the data reported to the Federal government.
- Confirm the applicable fiscal year Federal Medical Assistance Percentage (FMAP) rate is the rate stated on the applicable ACF-696 report prior to submission to the Federal Government.

Management's Response and Corrective Action Plan

The Division of General Accounting (DGA) agrees with the issue of ARRA funds not being reported correctly and the inaccurate match rate on the 6/30/2010 ACF 696 Child Care Report. These errors were caught and reported correctly on the 12/30/2010 ACF 696 Child Care Report.

The Division of General Accounting does not agree with the recommendation to use only one supporting worksheet in order to decrease movement/transferring of data from worksheet to worksheet during the development of the ACF-696 Report. Child Care has several targeted earmarks to hit within the lifetime of the grant. Different spreadsheets help DGA track these targets and identify the appropriate columns to use on the ACF-696 report.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-61: The Cabinet For Health And Family Services Should Ensure All Federal Financial Reports Are Adequately Reviewed Prior To Submission (Continued)

Management's Response and Corrective Action Plan (Continued)

The Division of General Accounting does agree to reconcile the ACF-696 report to eMARS. In addition, DGA will confirm the correct match rates are being used by going to the Child Care Bureau and confirming the match rate for the particular grant and year.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-62: The Cabinet For Health And Family Services Should Implement Review Procedures To Ensure CSBG ARRA-Related Expenditures Are Coded Correctly In EMARS

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 93.569-Community Services Block Grant

CFDA 93.710-ARRA-Community Services Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles and Activities Allowed or Unallowed

Amount of Questioned Costs: \$0

During the FY 2010 audit of the Community Service Block Grant program (CSBG), we tested seventy expenditures for internal controls over compliance related to the allowable activities and allowable costs requirements. Of the items tested, we noted an expenditure transaction of American Reinvestment and Recovery Act (ARRA) CSBG funds that was coded to the regular CSBG grant in eMARS. It should be noted the subrecipient had separate contracts for CSBG funds and ARRA CSBG funds. This error was undetected by the agency's internal controls, but was investigated and corrected by CHFS staff after auditor inquiry. A journal voucher was done to correct the error during the audit.

There is no supervisory review of the expenditures before they are submitted to general accounting for payment in eMARS.

When there is no supervisory review to ensure that expenditures are coded correctly it increases the risk for errors and fraud and could result in incorrect information being reported to the Federal Government.

OMB Circular A-133, Compliance Supplement Part 3, requires that accounting records provide for the separate identification and accounting of ARRA fund expenditures from non-ARRA funds.

Good internal controls dictate the need for a review of expenditures to ensure they are recorded in the accounting system correctly.

Recommendation

We recommend CHFS develop and implement review procedures to ensure expenditures are coded to the correct account codes in eMARS. We recommend an independent review by someone other than the staff member who posts to the system.

Management's Response and Corrective Action Plan

DCBS agrees with the finding of one (1) invoice being paid with incorrect funds. This particular subrecipient has two like contracts; one using CSBG Regular funds and the other funded with CSBG ARRA. The invoice as submitted by the subrecipient incorrectly identified the wrong contract number, thereby allowing expenditures to be posted to the wrong contract. To ensure future compliance, DCBS Contract Specialists will include the step of verification of the contract number when reviewing invoices.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-63: The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 10.551-Supplemental Nutrition Assistance Program

CFDA 10.561-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$0

During the audit of the Supplemental Nutrition Assistance Program (SNAP), we tested the security of Electronic Benefit Transfer (EBT) cards received directly by local offices to determine if security procedures were in place and operating in accordance with the Department of Community Based Services (DCBS) Policy Manual. We noted problems with card issuance and security in 13 counties, as follows:

Barren County:

- In three cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- In one case, two forms of ID were not obtained and the recipient did not sign the card log.
- In four cases, EBT cards were not destroyed after 30 days as stated in the CHFS manual.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Bath County:

- In one case, only one form of ID was documented.

Boyle County:

- In six cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- In two cases, the date the card was issued was not stated.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Floyd County:

- In nine cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Gallatin County:

- In 18 cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- In one case, two forms of ID were not obtained and the recipient did not sign the card log.
- In one case, the EBT card was not destroyed after 30 days as stated in the CHFS manual.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-CHFS-63: The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices (Continued)**

Jefferson County:

- In six cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- In 54 cases, two forms of ID were not documented.
- In seven cases, the EBT cards were not destroyed after 30 days as stated in the CHFS manual.
- In two cases, the signature of the worker issuing the card was blank.
- In four cases, the date the card was issued was blank.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Kenton County:

- The key to the locked file cabinet is kept on top of the desk for use by anyone.
- The EBT logs for September 2009 were missing.
- In 105 cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- In 124 cases, only one form of ID was documented.
- In four cases, the recipient did not produce any form of ID and the recipient did not sign the card log.
- In 73 cases, the EBT cards were not destroyed after 30 days as stated in the CHFS manual.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Mercer County:

- In three cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- In one case, two forms of ID were not obtained and the recipient did not sign the card log.
- In four cases, the EBT card was not destroyed after 30 days as stated in the CHFS manual.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Montgomery County:

- In two cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- In two cases, the EBT card was not destroyed after 30 days as stated in the CHFS manual.
- Employee A and Employee B failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Pulaski County:

- In 14 cases, the employee receiving the supply of EBT cards also issued the EBT cards.
- Employee A and Employee B failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-63: The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices (Continued)

Taylor County:

- Employee A and Employee B failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Warren County:

- In one case, the employee receiving the supply of EBT cards also issued the EBT cards.
- In 11 cases, only one form of ID was documented.
- In two cases, two forms of ID were not obtained and the recipient did not sign the card log.
- In two cases, the signature of the worker issuing and/or receiving the card was blank.
- In one case, the date the card was issued was blank.
- In seven cases, the EBT card was not destroyed after 30 days as stated in the CHFS manual.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Wolfe County:

- In two cases, only one form of ID was documented.
- Employee A and Employee B along with the supervisor failed to review and sign the EBT-2 and EBT-5 at the end of the month to confirm the EBT cards remaining in the local office.

Personnel responsible for the EBT cards were not familiar with the EBT Security policies in the manual or chose not to follow the policies. The failure to follow the policies related to EBT card security created a lack of proper segregation of duties caused by the same employee receiving the supply of EBT cards and also issuing those cards to beneficiaries.

When EBT cards are not secured in the local offices, the cards could be misplaced or stolen and the office personnel may not notice for a period of time.

The DCBS Policy Manual at MS 0290 states, “The recipient has 30 days to pick up their EBT card in the local office. If they fail to pick up their EBT card within 30 days, the card must be destroyed.”

The DCBS Policy Manual at MS 0290 further states: “When EBT cards are received in the local office and the envelope has been opened, or is returned by the general public for any reason; the EBT card is logged onto form EBT-5, Affidavit of Destruction, and immediately destroyed.”

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-CHFS-63: The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices (Continued)**

To maintain the security of EBT cards in the local office:

A. The Field Services Supervisor (FSS):

1. Maintains overall responsibility for secure storage of EBT cards and logs;
2. Designates two individuals (Employee A and Employee B mentioned below) to handle, secure, issue, destroy and complete logs for EBT cards;
3. Ensures EBT cards are NEVER left unsecured;
4. Routinely inspects the secure storage area;
5. Destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damages, or not picked up within 30 days;
6. Signs form EBT-5 at the time of destruction; and
7. Reviews and signs forms EBT-2, County EBT Card Log, and EBT-5 monthly to confirm the EBT cards remaining in the local office at the end of each month.

B. Employee A:

1. Has responsibility for receiving and securing EBT cards;
2. Ensures that the EBT cards are logged on form EBT-2 as received;
3. Obtains a card from the secure location and releases the card to Employee B at the time a recipient comes in to pick up the EBT card;
4. Records the release of each EBT card to Employee B on form EBT-2 daily; and
5. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.

C. Employee B:

1. Has responsibility for releasing EBT cards to recipients;
2. Obtains the appropriate EBT card from Employee A as recipients come in to the local office to pick up their cards;
3. Views two forms of identification from the recipient picking up the card and documents the verification on form EBT-2;
4. Requires the recipient to sign, not initial, form EBT-2 to confirm receipt of the EBT card in a manner which preserves the confidentiality of others listed on form EBT-2.
5. Signs form EBT-2 to indicate that the recipient's EBT card was released; and
6. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.

D. Either Employee A or B and the FSS destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged or not picked up within 30 days, and signs form EBT-5 at the time of destruction.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-63: The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices (Continued)

E. Ensure that the following action is taken at the end of each month:

1. Both Employee A and B sign forms EBT-2 and EBT-5;
2. The FSS reviews and signs form EBT-2, comparing the list of outstanding cards to the cards remaining in the secure location; and
3. Retain forms EBT-2 and EBT-5 in a county file.

Recommendation

We recommend DCBS:

- Provide training to the staff responsible for EBT cards on proper receipt, maintenance, and destruction of the EBT cards.
- Evaluate current policies for appropriateness, update policies if necessary, and enforce the application of the policies.
- Ensure Kenton County properly secures the key to the file cabinet containing the EBT cards.

Management's Response and Corrective Action Plan

After the last APA review two years ago, the Division of Family Support (DFS) revised EBT maintenance policy to eliminate one EBT tracking log in order to simplify procedures and clarify the separate responsibilities for the person receiving the EBT cards from the person issuing the EBT cards to participants. As a result of this review, DFS plans to revise issuance procedures to only require one form of identification from participants, instead of two. These findings have also been reviewed and discussed with each Region. Field Service Supervisors (FSS) will review policy in Vol. I, MS 0280 and 0290, related to the receipt, maintenance and destruction of EBT cards, with all staff responsible for handling EBT cards during upcoming staff meetings to ensure they understand correct procedures. Some counties will address with all staff, as some may be designated as backups for handling EBT cards. Specific corrective actions will be implemented in each county with deficiencies as specified below:

- *In Kenton County, the key to the filing cabinet will be secured in the Supervisor's office, no longer available to staff who aren't responsible for EBT card security;*
- *Service Region Administrative Associates (SRAA) and/or Public Assistant Program Specialists (PAPS) will complete random reviews of EBT logs in Boyle, Mercer, Gallatin, Kenton, Warren, Barren and Jefferson;*
- *The staff meetings to discuss EBT security will be conducted by the SRAA in Boyd and Mercer counties;*
- *EBT logs will be reviewed by PAPS in Floyd and Wolfe Counties when they complete monthly visits for case reviews;*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-63: The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices (Continued)

Management's Response and Corrective Action Plan (Continued)

- *The FSS responsible for EBT 2 & EBT 5 in Barren, Warren, Gallatin and Kenton counties will e-mail these forms to the SRAA and SNAP PAPS by the 10th calendar day each month beginning March 2011. Discrepancies will be immediately addressed with the appropriate Supervisor;*
- *Jefferson County will ensure appropriate staff are assigned to all roles associated with EBT logs and each FSS will provide a list of assigned EBT staff to SRAA by 2/18/11. EBT logs will be reviewed at peer review meetings each month, beginning March 2011;and,*
- *Wolfe County will re-emphasize and monitor the policy to require 2 forms of identification from clients when picking up an EBT card and the requirement to destroy EBT cards issued to the local office if not picked up within 30 days.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-64: The Cabinet For Health And Family Services Should Ensure The Jefferson County DCBS Office Maintains Case Files In Accordance With Federal Requirements

State Agency: Cabinet for Health and Family Services

Federal Program: CFDA 93.558-Temporary Assistance for Needy Families

CFDA 93.714-ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$0

The Temporary Assistance for Needy Families' (TANF) program is administered by the Cabinet for Health and Family Services (CHFS). The TANF program includes the following Federal assistance programs: Kentucky Transitional Assistance Program (K-TAP), Kentucky Works Program, Kinship Care Program (KC), Family Alternatives Diversion (FAD), Work Incentive Program, and Safety Net.

We requested a sample of 33 case files from the Jefferson County Department for Community Based Services (DCBS) office for Federal eligibility requirements for KC, K-TAP and FAD programs and noted six case files that were missing as follows, four case files from FAD and two from KC.

The Jefferson County DCBS office did not comply with the agency's policies regarding storage and record retention.

When case files are missing, CHFS is not in compliance with Federal requirements concerning record retention.

When case files are missing we cannot determine if the recipients were eligible to receive benefit payments, in accordance with Federal regulations and 921 KAR 2. When case files are missing there is an increased risk that errors or fraud may have occurred and would not be promptly detected or corrected by the agency's control system. The risk for fraud within these programs is significant because eligible recipients can receive cash assistance. For example, families who are eligible to participate in the FAD program could receive up to a maximum of \$1300 during a 3-month eligibility period that may be used for transportation, child care, housing or employment-related expenses, in accordance with 921 KAR 2:500.

In addition to the increased risk of fraud within the program, there is also the concern that recipients could get additional benefits that they are no longer eligible to receive. When case files are missing there is a risk that individuals could reapply for benefits either before the required 24 month waiting period expires or apply for benefits more than twice in the beneficiary's lifetime.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-CHFS-64: The Cabinet For Health And Family Services Should Ensure The Jefferson County DCBS Office Maintains Case Files In Accordance With Federal Requirements (Continued)

OMB Circular A-133 Part 6 states, “The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.”

According to the CHFS, DCBS Operations Manual - Volume I:

The case record is the official document of the Department that establishes accountability for the expenditure of state and federal funds. Local management staff is responsible for insuring case records are properly maintained, purged of obsolete material, and accessible to staff. (MS 0030)

Case records are required to be retained for a length of time specified by each program. Material not directly related to eligibility or benefit authorization is not retained. To assure records contain only relevant material, case records are purged of all outdated material during the recertification process. Purged material is shredded or burned prior to disposal. (MS 0040)

TANF has a required record retention of five years.

Do not purge a case record if the case is involved in an audit until the audit is completed and a response to the audit has been filed. (MS 0040)

Recommendation

We recommend CHFS comply with Federal requirements, as follows:

- Locate the missing case files or discontinue program benefits.
- Ensure the Jefferson County DCBS office maintains case files in accordance with Federal requirements and the agency’s policy.

Management’s Response and Corrective Action Plan

Since the completion of the audit, the Jefferson County DCBS office has located four of the six missing case files. Three of the cases found were FAD cases and one case was Kinship Care. Attached are copies of the applications for the four cases that were found. Jefferson County will continue to make efforts to locate the other two missing files.

CHFS agrees that the Jefferson County DCBS office did not comply with the agency’s policies regarding storage and record retention. The Division of Service Regions (DSR) and Division of

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-CHFS-64: The Cabinet For Health And Family Services Should Ensure The Jefferson County DCBS Office Maintains Case Files In Accordance With Federal Requirements (Continued)**

Management's Response and Corrective Action Plan (Continued)

Family Support (DFS) will work with Jefferson County to assist them in developing and maintaining an adequate filing system to ensure the location and tracking of case files. DSR and DFS are reviewing Jefferson County's current policies and make recommendations to ensure any inadequacies are identified and resolved. In addition, follow-up will be conducted to ensure the recommendations are fully implemented.

Additionally, Jefferson County DCBS office supervisors reviewed current policy regarding the maintenance of case records and office protocol for maintaining discontinued case records, including FAD cases at its scheduled Peer Review meeting on March 10, 2011. The Jefferson County DCBS office will also ensure that case managers review policy and protocol for maintaining case records at a meeting scheduled on March 24, 2011. A Regional Program Specialist will attend the monthly meeting of the Kinship team in March of 2011 to discuss and review correct procedures and protocol for maintaining case records. Once policy and procedures are revised, Jefferson County DCBS management will review policy with staff immediately.

If a case record is requested for review and cannot be located, Regional Program Specialists in Jefferson County will notify the Service Region Administrator Associate (SRAA) immediately. The Program Specialists will develop protocol for follow-up, request corrective action plans and monitor local corrective action plans to ensure case records are filed appropriately and can always be located. All FAD cases will be provided to the SRAA for storage upon discontinuance of the case.

DFS issues instructional material to local field staff on a regular, on-going basis. Tips are posted weekly on the Kentucky Automated Management Eligibility System (KAMES) on various topics related to the proper application of policy and procedures. DFS has developed and will issue tips on a quarterly basis to remind staff of procedures outlined in Volume I, MS 0030 and MS 0040 to ensure information is available on proper maintenance of case files. Additionally, a Family Support Memorandum (FSM) is issued annually which provides information for properly maintaining case records.

The Cabinet has many edits and procedures in place to prevent workers from creating fictitious cases. These edits and procedures are built into the application, approval and payment processes. For example, before an application can be entered on KAMES, an agency contact must be entered by support staff (not a caseworker). An application cannot be processed and benefits cannot be issued without completion of the agency contact or the supervisor signing off on the case. Additionally, if the worker is on probation, the supervisor must sign off on the case prior to the case being approved.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-CHFS-64: The Cabinet For Health And Family Services Should Ensure The Jefferson County DCBS Office Maintains Case Files In Accordance With Federal Requirements (Continued)**

Management's Response and Corrective Action Plan (Continued)

Four of the cases in question were from the state's TANF diversion program known as Family Alternatives Diversion (FAD). Edits and procedures have been created for this program as FAD is processed on a separate system. These include:

- *Limiting the number of times a client may receive FAD assistance to once every 24 months and only twice in a lifetime;*
- *Creating an interface/link on KAMES to access the FAD system that prevents the receipt of FAD and K-TAP benefits simultaneously;*
- *Creating specific need categories on FAD to identify the exact type of payment issued;*
- *Restricting payments from being issued directly to the client; and,*
- *Requiring supervisory approval for all payments.*

In addition to the above edits and procedures, several reports are generated that are monitored by designated staff within the region. Those reports include payments made by county and approval code, payments created and issued by the same person, payments pending more than 10 days, daily FAD payments and FAD monthly payment report.

Quality control reviews performed by the Quality Control Branch in the Division of Program Performance will begin another level of case review by expanding to encompass compliance for Kinship Care cases. DFS staff is working with the Quality Control Branch to develop this process with a target date for implementation of September 2011.

Additionally, the Cabinet is in the process of developing an electronic case file system that will take the place of all hard copy case records. By converting to a paperless system, the Cabinet will further reduce the risk of loss of case records and the possibility of issuing duplicate benefits. The Cabinet anticipates commencing a phased rollout in August 2011 with statewide rollout to be completed in 2012.

Although any missing hard copy case record is of significant concern, the risk of an individual's ability to obtain duplicate benefits, or to receive benefits before a mandatory waiting period expires is low due to the electronic tracking of time limits and issuance of benefits within the Kentucky Automated Management Eligibility System.

Auditor's Reply

In its response, CHFS indicated it provided the auditors four of the six missing case files noted in our finding. This information was not obtained early enough for audit consideration, but the information will be considered in our follow-up of this finding during the FY 11 audit.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-65: The Kentucky Department Of Military Affairs Should Ensure Improve Processing Of Payments To Ensure State Sales Tax And Late Fees Are Not Paid On Utility Bills

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401-National Guard Military Operations and Maintenance Projects

CFDA 12.401-ARRA-National Guard Military Operations and Maintenance Projects

Federal Agency: U.S. Department of Defense

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Cost/Activities Allowed

Amount of Questioned Costs: \$127

During our testing of the Kentucky Department of Military Affairs (KYDMA) National Guard Operations & Maintenance (CFDA 12.401) program we selected a sample of 60 telephone and utility charges for testing. Our testing of these items identified the following two deficiencies:

- In August 2009, the National Guard program paid sales tax on a gas bill. The billing of sales tax continued until December 2010, when the bill was corrected and the vendor refunded the sales tax owed to the National Guard.
- On a May 2010 electricity bill, the National Guard program paid a late fee associated with a prior month's bill for the amount of \$59.

In following up on these deficiencies, the auditor became aware that National Guard invoices were not being received timely in the business office. The auditor also noted during follow-up inquiries that although only two instances of late telephone and utility payments were identified in the testing sample, these are not isolated incidents. The inability of personnel to receive invoices timely from the field hampers the National Guard's ability to process and pay bills in a timely manner.

Also, a breakdown in internal control, for reviewing invoices being processed and paid by the National Guard, led to sales tax being paid on its gas bills.

The failure of the KYDMA to implement strong internal controls led to a breakdown in their control structure. The breakdown results in invoices being paid late, which cause penalties or late fees to be incurred. Having bills/invoices lag in the field or on someone's desk for months is not an acceptable practice. Additionally, lack of review over utility bills led to the Commonwealth's tax exempt status not being utilized on gas bills for over a year.

KRS 139.470 (7) states,

Kentucky sales and use tax shall not apply to purchases of tangible personal property or services made by any cabinet, department, bureau, commission, board, or other statutory or constitutional agency of the Commonwealth. This exemption applies only to purchases of property or services for use solely in the government function. A purchaser not qualifying as a governmental agency or unit is not entitled to the exemption even though such purchaser may be the recipient of public funds or grants.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-65: The Kentucky Department Of Military Affairs Should Ensure Improve Processing Of Payments To Ensure State Sales Tax And Late Fees Are Not Paid On Utility Bills (Continued)

NGR 5-1 National Guard Grants and Cooperative Agreements Chapter 5-3 states,

Allocable Costs: Costs must actually have been incurred by the grantee and be allocable to the CA supported program, project or facility. This means the CA received a direct benefit from the activity causing the charge; there is a causal relationship between the activity causing the charge and the Federal program (i.e., the cost effect of the additional burden caused by the CA is measurable); and the cost would disappear without the existence of the CA.

Recommendation

We recommend the Department of Military Affairs:

- Develop and implement controls to ensure invoice payments are made timely and accurately.
- Ensure sufficient supervisory review by competent individuals over invoiced documents.
- Centralize accounting/business services by having all bills come to one central location to ensure payments are made timely and reviewed correctly.
- Utilize the pre-audit function, along with three distinct levels of approval.

Management's Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for allowable costs and cost principles is to provide reasonable assurance that funds are expended only for allowable activities and that the costs of goods and services charged are allowable and in accordance with the applicable cost principles. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of the identified deficiency.

Based on the auditor's finding, DMA management has conducted an analysis of the overall risk environment currently facing the department and concurs with the auditor's finding.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-DMA-65: The Kentucky Department Of Military Affairs Should Ensure Improve Processing Of Payments To Ensure State Sales Tax And Late Fees Are Not Paid On Utility Bills (Continued)**

Management's Response and Corrective Action Plan (Continued)

Sales tax was inadvertently paid on an August 2009 Louisville Gas & Electric Company (LG&E) billing by a former Facilities Division employee. Payment of the sales tax continued until December 2010 when the present employee responsible for creating the payment noticed the incorrect charge and contacted LG&E for a full refund and supplied the appropriate sales tax exemption certificate to LG&E. This error has now been remedied.

The payment of a late fee to Kentucky Utilities (KU) on the May 2010 bill was the result of the prior month's bill not being paid in a timely manner because final approval at the Department Level 3 was delayed nine days from the date the invoice was submitted for approval by the Division of Facilities due to insufficient funds in the grant agreement which was caused by the federal CRA activity or, more specifically, lack thereof.

All staff in the Division of Facilities responsible for the payment of invoices or the approval of invoices have been counseled on the necessity of performing a thorough review of all invoices and supporting documentation before processing vendor payments.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-66: The Department Of Military Affairs Should Strengthen Internal Controls Over Expenditures To Avoid Penalty And Interest Charges And Comply With Policies Requiring Proper Segregation Of Duties Between Pre-Audit And Approval Processes

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401-National Guard Military Operations and Maintenance Projects

CFDA 12.401-ARRA-National Guard Military Operations and Maintenance Projects

Federal Agency: U.S. Department of Defense

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Cost/Activities Allowed

Amount of Questioned Costs: \$38,987

During our audit of the Kentucky Department of Military Affairs (KYDMA), we tested payments for utilities, capital construction, payroll, rental, and maintenance of buildings and grounds. While examining these transactions we noted that KYDMA bills were paid late resulting in the assessment of penalties and interest for non-payment and/or late payment. Because payments were not made timely, KYDMA incurred charges for penalty and interest related to two separate disasters in the amounts of \$17,384 and \$21,603, for a total questioned cost of \$38,987.

In addition to this, during inquiry of these weaknesses, auditors were made aware of control deficiencies that extended beyond the year under audit. The auditors obtained information indicating past due bills for garbage collection that occurred in November 2010 and December 2010. Furthermore, the auditor noted instances in which transactions were being processed without following the prescribed approval process. The auditor obtained 31 transactions indicating the same person performed both the pre-audit function and applied the level I approval. This approval method is not consistent with KYDMA's policies, and therefore appears to be a circumvention of the agency's internal controls.

KYDMA personnel failed to adhere to its policies and procedures, which led to the control weaknesses identified above. It appears that KYDMA does not have strong centralized processing or monitoring of its payment functions. When KYDMA fails to practice good internal controls, it subjects the Commonwealth to pay late fees, as well as additional risks associated with not having a properly segregated approval process. Furthermore, late fees or penalty and interest charges are not allowable federal grant charges. FEMA also indicates it can withhold reimbursements or advancement of payments due to the Commonwealth if invoices are not being paid timely.

The application of pre-audit and approval controls by the same person circumvents the agency's procedures, which requires one individual to perform the pre-audit function and the branch manager to perform the level I approval. By circumventing these requirements, there is an increased risk for the bill to be processed incorrectly or for funds to be misappropriated.

FEMA criteria contained in 31 U.S.C. 3717 and Title 6 CFR 11.10 states,

If this bill is not paid within 30 days of the bill date, interest at 3% per annum and an administrative charge for any costs incurred in collection will be assessed according to provisions of 31 U.S.C. 3717 and Title 6 CFR 11.10. Also, a penalty of 6% will be assessed on the unpaid balance, including any interest and administrative charges, if the bill is not paid within 90 days of the bill date.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-66: The Department Of Military Affairs Should Strengthen Internal Controls Over Expenditures To Avoid Penalty And Interest Charges And Comply With Policies Requiring Proper Segregation Of Duties Between Pre-Audit And Approval Processes (Continued)

NGR 5-1 National Guard Grants and Cooperative Agreements Chapter 5-3 states,

Allocable Costs: Costs must actually have been incurred by the grantee and be allocable to the CA supported program, project or facility. This means the CA received a direct benefit from the activity causing the charge; there is a causal relationship between the activity causing the charge and the Federal program (i.e., the cost effect of the additional burden caused by the CA is measurable); and the cost would disappear without the existence of the CA.

(2) Allowable Costs: Costs must conform to Federal, DoD, Army, AF and NG policies concerning the use and management of Federal funds and may not be contrary to any restriction, limitation, or instruction contained in any approved budget.

As set forth in KYDMA's manual *eMARS Security - Approval Roles in Internal Control*, "the division-level pre-audit approval is to ensure the document submitted to e-Mars for payment is correct in all aspects. The branch approval or level I is to be performed by a branch manager and the approval is to indicate the charge is a allowable cost against the program and budget funds are available."

Recommendation

We recommend the KYDMA consider the following:

- Implement policies and procedures to improve the timeliness of payments. KYDMA should consider whether centralized accounting/business services are more efficient and effective than its current decentralized structure, or otherwise improve controls over the monitoring of accounting functions at decentralized locations. Also, KYDMA's procedures should ensure the accounting and monitoring functions are staffed and supervised by individuals possessing the appropriate knowledge and skills in accounting.
- Reinforce the policies and procedures identified in the agency's manual, *eMARS Security - KYDMA Approval Roles in Internal Control*, to ensure proper segregation of duties related to pre-audit and approval processes, and also implement procedures to reduce the potential for internal controls over pre-audit and approvals to be circumvented.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-DMA-66: The Department Of Military Affairs Should Strengthen Internal Controls Over Expenditures To Avoid Penalty And Interest Charges And Comply With Policies Requiring Proper Segregation Of Duties Between Pre-Audit And Approval Processes (Continued)**

Management's Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for allowable costs and cost principles is to provide reasonable assurance that funds are expended only for allowable activities and that the costs of goods and services charged are allowable and in accordance with the applicable cost principles. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of the identified deficiency.

Based on the auditor's finding, DMA management has conducted an analysis of the overall risk environment currently facing the department and concurs with the auditor's finding.

In the Facilities Division, the invoices from ID/Republic Service were being sent by the vendor to the service address and not to the billing address at the Division of Facilities. Facilities Division discovered this on January 24, 2011 and the Division has remedied the situation by contacting the vendor to change the billing address as appropriate and made immediate payment on the outstanding balance. In addition, the Division has communicated with personnel at the supported service location and informed them of the proper billing address for all invoices.

In the Emergency Management Division (KyDEM), the Other Needs Assistance (ONA) payments identified in the audit finding were mailed by FEMA to the KyDEM ONA Program Coordinator who, at that time, was working away from the office at another location for the Disaster Field Office (DFO) to help process claims. Therefore, the bills accumulated on his desk at his regular office without anyone's knowledge. KyDEM has contacted FEMA to change the procedure to where FEMA will email the bills directly to the KyDEM fiscal management office thereby eliminating any further potential delay.

KyDEM has also revised their divisional fiscal payment processing procedures to restore the pre-audit function as a stand-alone approval in the overall processing and approval of automated accounting documents.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-DMA-67: The Department Of Military Affairs Should Avoid Charging Non-CSEPP Related Activities To The CSEPP Grant**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040-Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Cost/Activities Allowed

Amount of Questioned Costs: \$41,031

In the FY 10 audit of Kentucky Emergency Management (KyEM) Chemical Stockpile Emergency Preparedness Program (CSEPP), we tested employee timesheets and work plans to ensure payroll charges for the CSEPP grant are allowable and accurately reported. We identified the following deficiencies:

- We identified that KyEM 100% CSEPP employees performs work on non-CSEPP activities. KyEM CSEPP staff does not separately account for time spent on various activities in their timesheets or other documentation. Timesheets only reflected notes about the employees' daily activity when they worked overtime. KyEM's Finance and Grants Administrative Branch Manager stated that all salary and benefits for these employees are charged to CSEPP each pay period, and that KyEM does not adjust the payroll charges for any time spent by these employees on non-CSEPP activity. We identified 1,771 hours spent on non-CSEPP activities that were billed to the CSEPP grant, resulting in an estimated \$39,118 in questioned costs.
- All the work plans reviewed required individuals to work at least 30 hours per week on CSEPP. Because KyEM does not require CSEPP employees to account for the exact number of hours per activity on timesheets, we cannot determine if KyEM is in compliance with these work plans. The auditor does agree with KyEM that these work plans do allow KyEM CSEPP staff to work on non-CSEPP activities. However, it does not permit KyEM to charge CSEPP for non-CSEPP activities.
- We found evidence indicating one 100% funded CSEPP employee had time submitted for reimbursement as forced labor charges for the Public Assistance grant (PA), even though his salary and benefits were charged to CSEPP. The Administrative Branch Manager indicated this employee was not assigned as 100% CSEPP funded until January 1, 2010 and that the May 2010 billing to PA was an oversight. KyEM was not able to provide written documentation to support this. This error resulted in a double billing for the hours worked by the employee to the CSEPP grant and the PA grant, resulting in \$1,913 in questioned costs.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-67: The Department Of Military Affairs Should Avoid Charging Non-CSEPP Related Activities To The CSEPP Grant (Continued)

Because KyEM does not make CSEPP staff allocate the amount of time spent on various activities we are questioning the hours worked during the entire day when non-CSEPP activities were identified in the overtime notes. Requests for employee pay were made, but supporting documentation was never supplied from Kentucky Department of Military Affairs. Therefore, the auditor estimated the questioned cost amount by averaging the hourly rate for the CSEPP employees. Based on this methodology, we question \$39,118 in unallowable charges.

Auditors noted the most common non-CSEPP tasks were disasters, such as winter storms, flooding, and wind storms. Another common task was Manager on Call (MOC). The employee assigned to the MOC function took general emergency calls coming into KyEM and responded as needed. The Administrative Branch Manager noted that this is routine and staff can complete their normal daily tasks while being available to answer the phone. The Administrative Branch Manager stated that KyEM does not assign this task anymore. We also noted instances in which CSEPP employees were sent to non-CSEPP counties to perform damage assessments, and one instance in which the CSEPP Branch Manager charged 21 hours in two days for "Painting RM Room".

The Administrative Branch Manager stated that responding to these disaster situations was practice for CSEPP staff. The auditor agrees that it would be reasonable to utilize CSEPP staff in non-CSEPP situations, and it is particularly understandable that CSEPP employees are utilized when a state of emergency is declared. However, the time the employees spend on those activities should be charged to the program they are assisting, rather than CSEPP. KyEM has been unable to supply any supporting documentation that costs for non-CSEPP activity is allowable for the CSEPP grant.

By double billing the CSEPP grant and the PA grant, KyEM has received reimbursement for costs that are not unallowable for the CSEPP grant. Furthermore, since CSEPP is paying the cost for work of other programs, those programs are being under charged and therefore the actual cost of those programs is understated.

The U.S. Department of Homeland Security's Chemical Stockpile Emergency Preparedness Program (CSEPP) provides a Cooperative Agreement Guide which offers guidance for administering the CSEPP program. Included, by reference, in this guide is OMB Circular A-87, 2 CFR Part 225 and 44 CFR Part 13, which provide cost principles for determining allowable costs, including allowable personnel costs. These principles require that federal awards are used efficiently and effectively to achieve the objectives of the federal program. DMA assumes responsibility for administering the funds in a manner consistent with all underlying agreements, program objectives, and all terms and conditions of the federal grant award.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-67: The Department Of Military Affairs Should Avoid Charging Non-CSEPP Related Activities To The CSEPP Grant (Continued)

2 CFR Part 225 Appendix B states in part:

8. Compensation for personal services.
 - a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:
 - (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
 - (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
 - (3) Is determined and supported as provided in subsection h.
 - h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.
 - (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - (a) More than one Federal award,
 - (b) A Federal award and a non-Federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
 - (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-67: The Department Of Military Affairs Should Avoid Charging Non-CSEPP Related Activities To The CSEPP Grant (Continued)

Cooperative Agreement Guide Part IV, Subsection 3 – Program Specific Narrative and Work Plan, requires each CSEPP employee must submit an annual work plan using CSEPPWebCA. In developing Work Plans, the following must be considered:

- CSEPP funded positions are restricted in their availability to perform non-CSEPP activities and must work full-time on CSEPP.
- CSEPP funded employees can respond and support emergencies or disasters within their jurisdictions for a period of up to two weeks.
- For Federally-declared disasters, employees' time should be charged directly to the disaster code.
- If a position is partially funded by CSEPP, the Grantee/Subgrantee must ensure that the individual's time performing CSEPP-related work is proportional to the percentage paid by CSEPP.

Recommendation

We make the following recommendations to the Department of Military Affairs Division of Emergency Management:

- KyEM's should implement policies and procedures that comply with the CSEPP Cooperative Agreement, ensuring that the CSEPP grant is only charged for the time employees spend on CSEPP-related work. These internal controls should require a timesheet system with a clear distinction of employees hours charged to various federal and non-federal activities.
- KyEM should alter its procedures to allocate salary and benefits for all KyEM staff to the appropriate grant based on these timesheets.
- KyEM should review prior year records for unallowable costs. Those costs deemed to be unrelated to the grant should be disallowed and repaid.

Management's Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for allowable costs and cost principles is to provide reasonable assurance that funds are expended only for allowable activities and that the costs of goods and services charged are allowable and in accordance with the applicable cost principles. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of the identified deficiency.

Based on the auditor's finding, DMA management has conducted an analysis of the overall risk environment currently facing the department and concurs with the auditor's finding.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-DMA-67: The Department Of Military Affairs Should Avoid Charging Non-CSEPP Related Activities To The CSEPP Grant (Continued)**

Management's Response and Corrective Action Plan (Continued)

KyDEM will modify its internal controls to annotate any EOC activation for non-CSEPP emergency response (such as EOC activations for floods, forest fires, tornados, etc.) on CSEPP employee timesheets and then JV2E those costs to an appropriate state emergency account. Also, KyDEM will contact the federal grantor to clarify the federal grantor's regulation regarding their allowance of 105 hours per person per year for non-CSEPP related activities to see if this federal stipulation was intended for other, non-CSEPP specific training (such as eMARS training of programmatic personnel, sexual harassment training, personnel benefit seminars, etc.) or whether they allow non-CSEPP emergency EOC response personnel costs to be an allowable cost against their grant. A written response will be requested.

To alleviate any perception of impropriety, KyDEM will JV2E out the personnel cost previously posted to the CSEPP grant of a CSEPP employee painting a room and charge that cost against an appropriate agency account.

KyDEM will audit prior year CSEPP grant costs to determine applicability, and credit the grant for any questionable charges.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-68: The Department Of Military Affairs Should Implement Procedures To Improve CSEPP Cash Management

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040-Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Cash Management

Amount of Questioned Costs: \$0

During the FY 10 audit of Kentucky Emergency Management's (KyEM) Chemical Stockpile Emergency Preparedness Program (CSEPP), we discovered instances of poor internal controls and noncompliance with regulations relating to cash management. During the cash management test we selected 40 transactions and evaluated KyEM's ability to process reimbursement requests to ensure subrecipients are reimbursed timely. When we reviewed the number of days between the subrecipient signature on the 1801 reimbursement form and the date Treasury issued payment we found 12 transactions that did not appear to be paid in a reasonable period of time. We noted reimbursements totaling \$547,415 paid between 31 and 131 days after the 1801 reimbursement form was signed.

The failure of the KyEM branch to institute a set of strong internal controls over cash management led to timeliness issues with the reimbursement process. We inquired with KyEM CSEPP Branch Manager about these items and the reasons why such delays may exist. The Branch Manager cited several items as possible contributing factors, including Emergency Operations Center activations during States of Emergency, staff vacations at Christmas/New Year's holidays, delays in contract negotiations with subrecipients, and delays in the expenditure process in other areas of Department of Military Affairs (DMA). However, it appears that the exceptions are dispersed evenly throughout the year. KyEM did not provide support as to why specific reimbursements were delayed.

The failure to reimburse or process reimbursement requests timely and efficiently, leads to slow reimbursement of funds to the counties in the ten county CSEPP Region. Delayed reimbursements by KyEM place an undue hardship on smaller local governments.

2 CFR Part 225; Appendix A; A. Purpose and Scope; 2. Policy guides states in part:

The application of these principles is based on the fundamental premises that:

Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices. Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-DMA-68: The Department Of Military Affairs Should Implement Procedures To Improve CSEPP Cash Management (Continued)

44 CFR Part 13; Subpart C-Post-Award Requirements; Financial Administration §13.21 Payment states in part:

(f) Withholding payments.

Unless otherwise required by Federal statute, awarding agencies shall not withhold payments for proper charges incurred by grantees or subgrantees unless-

The grantee or subgrantee has failed to comply with grant award conditions; or the grantee or subgrantee is indebted to the United States.

Recommendation

We recommend the Department of Military Affairs Division of Emergency Management evaluate the 1801 reimbursement process to ensure procedures are in place to permit timely reimbursements to CSEPP subrecipients.

Management's Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for cash management is to provide reasonable assurance that the drawdown of Federal grant cash is only for immediate needs, States comply with applicable Treasury agreement, and recipients limit payment to subrecipients to immediate cash needs. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department from this finding and concurs with the auditor's finding.

KyDEM will modify its internal controls to require that any automated eMARS document that doesn't pass the pre-audit test for further approval, be rejected all the way back to the submitter instead of allowing it to sit on the document catalog in a submitted, Branch approved status until the correct source documentation or clarification is received. An internal log of these rejections will also be maintained in the KyDEM Fiscal Mgt Branch. Also, KyDEM will insure that all invoices are date stamped by the programmatic initiator of the payment document and again at the pre-audit level to help identify any back-dated original invoice documents that are being processed as current payments which would have the appearance of tardy reimbursements.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-DMA-68: The Department Of Military Affairs Should Implement Procedures To Improve CSEPP Cash Management (Continued)**

Management's Response and Corrective Action Plan (Continued)

Also, KyDEM will modify its internal controls to require that the internal CSEPP 1801 form will no longer be used as a source document for CSEPP grant payments in eMARS. A copy of the original, date stamped invoice must accompany the eMARS payment document either physically or via attached pdf file. The 1801 may also be attached to the payment but will only serve an internal CSEPP federal grant budget tracking purpose and will not be a source document for payment.

Furthermore, programmatic individuals will be designated as having primary responsibility for processing payments in eMARS and a back-up individual will also be designated in the absence of the primary. These individuals will also annotate any EOC activations and dates (or other emergency factor) on the original invoice that occurred after the receipt of the invoice which affected it's timely processing. This annotated, date stamped original invoice will then become part of the accounting record.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-FAC-69: The Finance And Administration Cabinet Should Ensure The Accuracy Of ARRA Expenditures For The State Fiscal Stabilization Fund

State Agency: Finance and Administration Cabinet

Federal Program: CFDA 84.394-State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
CFDA 84.397-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$0

Among the transparency-related requirements in the American Recovery and Reinvestment Act (ARRA) is a quarterly report (1512 report) to disclose federal dollars received and spent and jobs created for every program. The Commonwealth of Kentucky's 1512 report on the State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act program (referred to as SFSF Government Services) for the quarter ending December 31, 2009 stated in error that no program funds had been expended. In fact, \$25,357,271 had been expended by the Department of Corrections by the end of that quarter.

The Office of Administrative Services (OAS) within the Finance and Administration Cabinet (FAC) is responsible for preparing and filing SFSF Government Services 1512 reports. The reporting error occurred because OAS' source for expenditure data was requests for federal reimbursement from the agencies that actually spent and received the SFSF Government Services grant, the Department of Corrections and Kentucky State Police.

Department of Corrections charges to the SFSF Government Services grant were \$21,207,463 in November 2009, \$4,149,808 in December 2009, \$19,207,193 in January 2010, \$6,323,840 in February 2010, \$6,295,214 in March 2010, and \$6,366,082 in April 2010; however, the Department of Corrections waited until May to submit its first request for federal reimbursement. OAS was not aware that the Department of Corrections had begun to spend this grant, although that information was available in the Enhanced Management and Reporting System (eMARS), the state's accounting system.

The effect was an inaccurate second quarter 1512 report that understated SFSF Government Services funds expenditures by \$25,357,271.

FAC's Office of Policy and Audit (OPA) monitors the 1512 reports and noted a similar understatement in the third quarter report. OAS corrected the third quarter report, but the second quarter report could not be corrected after the third quarter report had been filed.

Section 2.1 of OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, states that recipient reports "are required to include the following detailed information: Total amount of funds received; and of that, the amount spent on projects and activities...." Good internal controls dictate preparing reports by using the most reliable source of data readily available.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-FAC-69: The Finance And Administration Cabinet Should Ensure The Accuracy Of ARRA Expenditures For The State Fiscal Stabilization Fund (Continued)

Recommendation

We recommend FAC use an eMARS expenditure report as its source of 1512 report expenditure data, while continuing to use federal reimbursement request data to determine funds received.

We further recommend that all agencies endeavor to request federal reimbursements promptly, particularly when reimbursements are performed manually (as is the case for fiscal stabilization grants) instead of automatically through eMARS.

Management's Response and Corrective Action Plan

The Finance and Administration Cabinet Office of Policy and Audit (OPA) reviews all state ARRA 1512 Reports to help ensure accuracy and compliance with the reporting requirements. As a part of their review, OPA detected that the SFSF ARRA 1512 Report expenditures for the Quarter Ending December 31, 2009 did not agree with the expenditures reported in eMARS. OPA notified the Office of Administrative Services (OAS) that a discrepancy existed. Therefore, FAC implemented using an eMARS report to check/report the expenditures data, starting with the FY 2010 third quarter report. FAC continues to use federal reimbursement request data to determine funds received.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-KDA-70: The Kentucky Department Of Agriculture Should Ensure Subrecipients Are Compliant With Federal Audit Requirements

State Agency: Department of Agriculture

Federal Program: CFDA 10.568-Emergency Food Assistance Program (Administrative Costs)
CFDA 10.569-Emergency Food Assistance Program (Food Commodities)

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$0

During the course of the 2010 audit of the Emergency Food Assistance Program (TEFAP), we found that the Kentucky Department of Agriculture (KDA) had not complied with requirements to inform subrecipients of A-133 audit requirements, or determine which subrecipients required an A-133 audit, or ensure that subrecipients had an A-133 audit when required.

At the time of testing, KDA had audit reports from four of the five food banks on file for the 2009 fiscal year. KDA could not provide any documentation that any of these audits had been reviewed by the agency. It did not obtain the report for the fifth food bank until after auditors asked about the report.

KDA included outdated audit requirements in its contracts with food banks and did not make any determination of which subrecipients were required to submit an audit. Further they did not have internal controls in place to ensure that audits were received timely and reviewed by the agency. Although we noted that documented controls were insufficient to ensure required subrecipient audits were received and reviewed, our review of those audits did not identify any findings related to the program that may have been missed by the agency.

Per the OMB Circular No. A-133 Subpart D--Federal Agencies and Pass-Through Entities§____.400 Responsibilities:

- (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:
 - (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
 - (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
 - (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-KDA-70: The Kentucky Department Of Agriculture Should Ensure Subrecipients Are Compliant With Federal Audit Requirements (Continued)**

- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Recommendation

We recommend KDA update and amend its contracts with the food banks to include the correct A-133 audit requirements. KDA should also strengthen internal controls over subrecipient monitoring by creating written procedures to ensure that A-133 audit requirements are met. These procedures should include communication of the audit requirements in addition to the contracts, making a determination about which food banks require an A-133 audit, tracking of audit reports, ensuring that the reports are received and reviewed timely, issuing management decisions timely, and that all procedures are documented.

Management's Response and Corrective Action Plan

We concur that the contracts with the Food Banks were deficient. We are in the process of amending contracts to meet the OMB A-133 requirements. Management will review all contracts for required standards and notify Food Banks of such requirements. Additionally, we are developing written procedures to aid in the full range of compliance with OMB A-133.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-KDA-71: Kentucky Department Of Agriculture Should Not Charge Expenditures To Grants After The Period Of Availability Has Expired

State Agency: Department of Agriculture

Federal Program: CFDA 10.568-Emergency Food Assistance Program (Administrative Costs)
CFDA 10.569-Emergency Food Assistance Program (Food Commodities)

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: Period of Availability

Amount of Questioned Costs: \$26,822

The funding period for the 2009 TEFAP grant was October 1, 2009 through September 30, 2010. Therefore all expenditures should have been paid before December 31, 2010, which would be 90 days after the end of the funding period. Expenditures paid after the 90 day period are disallowed. Our testing of the period of availability compliance requirement indicated the Kentucky Department of Agriculture (KDA) paid expenditures totaling \$26,822 from the 2009 the Emergency Food Assistance Program (TEFAP) more than 90 days after the end of the funding period.

While KDA's subrecipients had incurred these expenditures prior to the end of the grant on September 30, 2009, the reimbursements were not made until February and April of 2010. Because these expenditures were paid after the funding period and the closeout period expired they are not allowable expenditures of the 2009 TEFAP grant and we question these costs.

Per the A-133 Compliance Supplement:

H. Period Of Availability Of Federal Funds

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §____.23; OMB Circular A-110 (2 CFR section 215.28)).

Non-Federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation).

Recommendation

We recommend KDA work with the U.S. Department of Agriculture to resolve the \$26,822 of questioned costs. We also recommend that KDA improve internal controls over the expenditure process to ensure that payments are not made outside of the period of availability.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-KDA-71: Kentucky Department Of Agriculture Should Not Charge Expenditures To Grants After The Period Of Availability Has Expired (Continued)

Management's Response and Corrective Action Plan

We concur that the payments were paid subsequent to the ninety (90) days and should have been paid more timely and or classified as "unliquidated obligations" on the FNS-667 "Final" report until such time as payment could be made. We have communicated the findings to our Federal Contact at the South East Regional Office and will increase oversight of the expenditure process to ensure payments are made in a timely manner.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-TC-72: KYTC Should Ensure Compliance With Davis Bacon Act Requirements

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205-Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Davis Bacon Act

Amount of Questioned Costs: \$0

The Kentucky Transportation Cabinet (KYTC) is required to follow the provisions of the Davis Bacon Act and other related acts on construction contracts greater than \$2,000. Contractors and subcontractors submit payrolls for each week or pay period, along with a statement of compliance (certifying the payroll). During the KYTC FY 10 audit, we selected ten contracts for amounts exceeding \$2,000 (four American Reinvestment and Recovery (ARRA) and six Highway Construction and Planning (CFDA 20.205) projects. Each contract had a prime contractor along with varying numbers of subcontractors. We reviewed contracts and payroll for ten prime contractors and eight subcontractors and noted:

For ARRA funded projects:

1. For two contractors, payrolls for one or more pay periods and the statements of compliance were missing.
2. For one subcontractor, the payroll record was not received timely.
3. For one contractor and one subcontractor, the payrolls were submitted, but not date stamped by KYTC.

For Highway Planning and Construction projects:

1. For two contractor and two subcontractors, payrolls for one or more pay periods and the statements of compliance were missing.
2. For two contractors and one subcontractor, the payroll records were not received timely.
3. For two contractors, one or more statements of compliance submitted to KYTC were not signed.

In addition, a state subcontractor agreement was used for nine subcontractors of one prime contractor when a federal subcontractor agreement should have been used. The federal subcontractor agreement clearly communicates Davis Bacon requirements to the subcontractors by including the following clause:

Further, the prime contractor is to submit or require the above subcontractor to submit for all federal projects the following forms:

Certified Transcript of Weekly Payroll, Form TC 14-308 and Form WH 348 must accompany each weekly payroll.

The state subcontractor agreement does not contain this clause.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-TC-72: KYTC Should Ensure Compliance With Davis Bacon Act Requirements (Continued)

KYTC is not ensuring all contractors and subcontractors required to submit payroll records are submitting the payrolls timely. Missing and late payrolls were issues in FY 09 also and some corrective actions were taken by KYTC at the end of FY 10 to correct the issues; however, we still noted similar problems during FY 10. Without proper oversight, there is a risk the certified payrolls are not being filed by the contractors and/or subcontractors; thus, there is a risk that contractors are not complying with the Davis-Bacon Act.

By not including the specific Davis-Bacon Act language in the subcontracts, the subcontractors may not be aware of the need to submit weekly payrolls. In addition, the state may not be in compliance with Davis-Bacon Act requirements by not including the specific clause in the subcontracts.

29 CFR 3.3 (b) Weekly Statement With Respect To Payment Of Wages in pertinent part states:

Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to wages paid each of its employees engaged on work covered by this part 3 or part 5 of this chapter during the preceding weekly payroll period.

The OMB Circular A-133 Compliance Supplement Part 3 Davis Bacon Act states:

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations.... This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Recommendation

We recommend KYTC evaluate the effectiveness of the additional procedures implemented in April 2010 and determine if additional procedures are required to ensure compliance with Davis-Bacon Act requirements. Additional procedures could include:

- Randomly selecting a sample of contractor files and verifying all payrolls and statements of compliance were received. This review should be documented.
- Consider generating a report every so often and verifying the contractors and subcontractor performing work during that week have submitted payrolls and statements of compliance. The report and results (or a scanned version) should be maintained as documentation of the procedure.
- Developing methods to ensure contractor and subcontractor compliance.

In addition, KYTC should consider reviewing the project funding information before signing subcontractor agreements to ensure the correct agreement is signed.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-TC-72: KYTC Should Ensure Compliance With Davis Bacon Act Requirements (Continued)**

Management's Response and Corrective Action Plan

The majority of the findings occurred prior to the changes the Division of Construction Procurement (DCP) implemented to manage the large number of payrolls that have to be monitored. However, there were a few issues found that occurred after that change. DCP will continue to randomly audit their files to verify the completeness of the payrolls submitted. To assist in doing this, DCP will generate a report from the construction records of active contractors and subcontractors. Then, DCP will check that all payrolls have been received on all active contractors and subcontractors. DCP will document this process.

Regarding the recommendation to “consider reviewing the project funding information before signing subcontractor agreements to ensure the correct agreement is signed” our processes have changed. The document is actually an approval letter issued by the Director of Construction for subcontracts. There was an oversight by the KYTC personnel sending the letter in this finding. If the project number is not a known federal or state project number, KYTC personnel look the project code up to verify if it is a state or federal project before the letter goes out.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-TC-73: KYTC Should Ensure Subrecipient Site Visits Are Properly Performed And Documented

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205-Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$0

The Kentucky Transportation Cabinet (KYTC) is responsible for monitoring all subrecipients for the Highway Planning and Construction Program (CFDA 20.205). Per OMB A-133 Compliance Supplement Section 3:

Monitoring activities normally occur throughout the year and may take various forms, such as:

- Reporting-Reviewing financial and performance reports submitted by the subrecipient.
- Site Visits-Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- Regular Contact-Regular contacts with subrecipients and appropriate inquiries concerning program activities.

We tested a sample of ten subrecipients listed on the subrecipient list submitted with the FY 10 Schedule of Expenditures of Federal Awards (SEFA) to verify the subrecipients were monitored by KYTC. We noted the following:

- KYTC had not documented site visits or regular contact with three subrecipients. Also, no performance reports were on file for 2010.
- KYTC conducted a site visit on another subrecipient but the documentation was not sufficient for ensuring the subrecipient administered the Federal award in compliance with laws, regulations, and the provisions of the contract while achieving performance goals.

KYTC does not have cabinet wide policies for subrecipient monitoring. Some subrecipients are monitored by the district with limited central office oversight. This can lead to subrecipients not being consistently and properly monitored and the documentation of the monitoring being inadequate or non-existent.

Sufficient procedures related to monitoring the subrecipient project progress were not performed. Without proper monitoring, KYTC does not know if the subrecipient is in compliance with federal requirements.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-TC-73: KYTC Should Ensure Subrecipient Site Visits Are Properly Performed And Documented (Continued)

OMB Circular A-133, Subpart D, §____.400 (d) states:

A pass-through entity shall perform the following for the Federal awards it makes:

- (2) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Recommendation

We recommend KYTC:

- Implement a cabinet wide policy for subrecipient monitoring including site visits and/or periodic performance (or progress) reports.
- Standardize the documentation required of site visits and other subrecipient monitoring activities.
- Identify specific sanctions for subrecipients that show an unwillingness to facilitate site visits or submit progress reports relating to their projects.

Management's Response and Corrective Action Plan

Office of Local Programs (OLP) Response

The OLP requires subrecipients to submit semi-annual progress reports. The progress report indicates what phase of the project is underway, any delays in the project, and whether the subrecipient has followed appropriate federal and/or state procedures where applicable. This requirement began in 2010; therefore some project files for older projects will not have two progress reports for each year. The Department of Rural and Municipal Aid employs field representatives who have been assisting with site visits along with the OLP staff. OLP projects are monitored by these field representatives, as well as OLP and district office staff. The OLP is working on providing a more comprehensive system for handling site visits for the project files.

The OLP maintains a tracking system for all the OMB A-133 audits related to our project audits and follow up with subrecipients who have failed to respond to initial correspondence. Our office strives to have all subrecipients respond to documentation requests in a timely fashion; however, some subrecipients do not follow up as requested. The OLP will strengthen the monitoring system in the areas suggested in the audit.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-TC-73: KYTC Should Ensure Subrecipient Site Visits Are Properly Performed And Documented (Continued)

Management's Response and Corrective Action Plan (Continued)

Office of Audits Response

KYTC conducted three training courses for applicable KYTC staff, including LPA Coordinators, Office of Local Programs, and the Division of Planning in July 2010. This training provided specific instructions regarding subrecipient monitoring, including what should be included in project files. We will continue to work on our subrecipient monitoring processes and strive for continuous improvement. We will work with the Cabinet's LPA coordinator on having a centralized policy for subrecipient monitoring including site visits and periodic progress reports.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-TC-74: KYTC Should Ensure Subrecipient Desk Reviews Are Completed Timely

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205-Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$0

The Kentucky Transportation Cabinet (KYTC) is responsible for monitoring all subrecipients for the Highway Planning and Construction Program (CFDA 20.205). KYTC does this by completing a desk review checklist documenting the review of the subrecipients' audit reports. We tested a sample of ten subrecipients from the 2009 Schedule of Expenditures of Federal Awards to verify the subrecipients FY 09 OMB Circular A-133 audit reports were properly reviewed by KYTC during FY 10. We noted the following:

- Two subrecipient OMB Circular A-133 audit reports were not in the Office of Local Programs even though the audit reports were completed November 18, 2009 and July 15, 2010, respectively. Therefore, no desk review was performed on these audits.
- One subrecipient's OMB Circular A-133 desk review was dated March 11, 2010, but not received by the Division of Planning until January 4, 2011. Although the desk review was completed, the delay in receiving the results did not allow the Division of Planning time to provide the subrecipient with management's decision within six months.

Procedures should be in place to ensure all audit reports are reviewed and management decisions provided to the subrecipient within six months.

While the Office of Local Programs and Division of Planning have both implemented an OMB Circular A-133 Audit Tracking Log, improvements can be made in using that log to ensure compliance with OMB Circular A-133. In all three instances above, the tracking log reflected the exceptions we noted. If audits are either not received or the results of desk reviews are not communicated to the appropriate KYTC division or office, KYTC is unable to follow up with subrecipient on action plans regarding audit findings.

OMB Circular A-133, Subpart D, §____.400 (d) states:

A pass-through entity shall perform the following for the Federal awards it makes:

- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipients fiscal year have met the audit requirements of this part for that fiscal year.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 10-TC-74: KYTC Should Ensure Subrecipient Desk Reviews Are Completed Timely (Continued)

- (5) Issue a management decision on audit findings within six months after receipt of the subrecipients audit report and ensure that the subrecipient takes appropriate and timely corrective action.

OMB Circular A-133, Subpart D, §____.405 states:

- (c) Pass-through entity. As provided in §____. 400(d) (5), the pass through entity shall be responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.
- (d) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

Recommendation

We recommend KYTC:

- Follow up if the OMB Circular A-133 tracking log indicates a subrecipient requiring an A-133 audit has not sent in a copy of the audit report.
- Submit a management letter to the subrecipient with the results of the desk review or management decision within six months of the receipt of the audit. If corrective action is needed, then KYTC should follow-up “as rapidly as possible.”
- Evaluate the potential benefits or efficiencies gained by creating a central location for receiving and reviewing OMB Circular A-133 audit reports.

Management’s Response and Corrective Action Plan

Division of Planning Response

The Division of Planning concurs with all three recommendations of the APA.

- *We will follow up if the OMB Circular A-133 tracking log indicates a subrecipient requiring an A-133 audit has not sent in a copy of the audit report. The APA noted “One subrecipient’s OMB Circular A-133 desk review was dated March 11, 2010, but not received by the Division of Planning until January 4, 2011....” It has been brought to our attention that two KYTC program managers outside of this division received the same report shortly after issuance. Regardless of when we receive a desk review report, we would have noticed if we monitored the OMB Circular A-133 tracking log. We will follow up using the OMB Circular A-133 tracking log.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 10-TC-74: KYTC Should Ensure Subrecipient Desk Reviews Are Completed Timely (Continued)**

Management's Response and Corrective Action Plan (Continued)

- *We will submit a management letter to the subrecipient with the results of the desk review or management decision within 6 months of the receipt of the audit. We will monitor the OMB Circular A-133 tracking log to help ensure that we send management letters timely. If corrective action is needed, then we will follow-up timely.*
- *We are evaluating the potential benefits or efficiencies gained by creating a central location for receiving and reviewing OMB Circular A-133 audit reports with other KYTC stakeholders. The Division of Planning suggests the Cabinet designate a single office/individual to be in charge of tracking OMB Circular A-133 audits, which would include requesting, receiving, and delivering to the Office of Audits for a desk review.*

The Office of Audits will then provide a memo back to that office/individual summarizing the audit report and providing information the project manager can use when following up with the subrecipient for any deficiencies noted, when necessary.

Office of Local Programs (OLP) Response

The OLP maintains a tracking system for all the OMB A-133 audits related to our project audits and follow up with subrecipients who have failed to respond to initial correspondence. Our office strives to have all subrecipients respond to documentation requests in a timely fashion; however, some subrecipients do not follow up as requested. The OLP will strengthen the monitoring system in the areas suggested in the audit.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

FY 09	09-TC-72	The Kentucky Transportation Cabinet Should Ensure Vendors Are Not Reported As A Subrecipient On The SEFA Subrecipient List	20.205	0	Resolved during FY 10.
FY 07	07-TC-92	The Kentucky Transportation Cabinet Should Implement Formal Policies And Procedures For Subrecipient Monitoring, And Implement Controls To Ensure Proper Reporting Of Subrecipients On The Schedule Of Expenditures Of Federal Awards	20.205	0	Resolved during FY 10.

(2) Audit findings not corrected or partially corrected:

FY 09	09-DMA-71	The Department Of Military Affairs Failed To Apply Appropriate Controls Over And Require Proper Supporting Documentation From Subrecipients	97.040	\$29,241	See 10-DMA-54 and 10-DMA-55.
FY 08	08-DMA-86	The Department Of Military Affairs Should Take Immediate Action To Address Potential CSEPP Subrecipient Misappropriation And Should Implement Appropriate Subrecipient Monitoring Procedures To Detect Future Noncompliances	97.040	\$1,874,615	See 10-DMA-54 and 10-DMA-55.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

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Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances (Continued)</u>					
<i>(4) Audit finding no longer valid or does not warrant further action:</i>					
FY 09	09-TC-73	The Kentucky Transportation Cabinet Should Implement And Follow Formal Policies And Procedures For Subrecipient Monitoring	20.205	0	Finding is not material in FY 10. See 10-TC-73 and 10-TC-74.
FY 08	08-TC-88	The Kentucky Transportation Cabinet Should Implement Formal Policies And Procedures For Subrecipient Monitoring	20.205	0	Finding is not material in FY 10. See 10-TC-73 and 10-TC-74.
<u>Significant Deficiencies/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 09	09-CHFS-76	The Cabinet For Health And Family Services Should Develop Formal Policies And Procedures Over Preparation And Review Of Federal Financial Reports	93.575 93.596	0	Resolved during FY 10.
FY 09	09-CHFS-77	The Cabinet For Health And Family Services Should Ensure Regulations Regarding Foster Parent Eligibility Requirements Are Followed	93.658	0	Resolved during FY 10.
FY 09	09-CHFS-78	The Cabinet For Health And Family Services Should Review Subrecipient Audit Reports And Issue A Management Decision Within Six Months	93.596 93.778 93.959	0	Resolved during FY 10.
FY 09	09-CHFS-80	The Cabinet For Health And Family Services Should Ensure Interstate Case Files Are Reviewed For Completeness And Appropriate Follow-up Action Is Taken	93.563	0	Resolved during FY 10.

COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected(Continued):</i>					
FY 09	09-CHFS-81	The Cabinet For Health And Family Services Should Ensure Staff Who Perform Federal Self Assessment Reviews Are Sufficiently Trained And Update The Computer System	93.563	0	Resolved during FY 10.
FY 09	09-CHFS-82	The Cabinet For Health And Family Services Should Require CDP To Submit A SAS 70 Audit	10.557	0	Resolved during FY 10.
FY 09	09-CHFS-83	The Cabinet For Health And Family Services Should Cross Train Other Employees In Preparing The Foster Care Title IV-E Report	93.658 93.659	0	Resolved during FY 10.
FY 09	09-CHFS-84	The Cabinet For Health And Family Services Should Evaluate The Benefits Of Implementing A Fully Functional Internal Audit Department	10.551 93.558 93.778	0	Resolved during FY 10.
FY 09	09-DWI-86	The Department For Workforce Investment Should Improve Oversight Of Subrecipient Monitoring	17.258 17.259 17.260	0	Resolved during FY 10.
FY 09	09-EDU-87	The Kentucky Department Of Education Is Not Able To Reconcile Nutrition Program Meal Counts To Reported Expenditures	10.553 10.555 10.556 10.558 10.559	0	Resolved during FY 10.
FY 08	08-CHFS-76	The Cabinet For Health And Family Services Should Ensure That All Subrecipients Are Monitored	93.283 93.563 93.959	0	Resolved during FY 10.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 09	09-CHFS-74	The Cabinet For Health And Family Services Should Maintain Recertification Documentation In Accordance With The State Plan	93.778	0	See 10-CHFS-59.
FY 09	09-CHFS-75	The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan	93.778	0	See 10-CHFS-59.

COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

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Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected(Continued):</i>					
FY 09	09-CHFS-79	The Cabinet For Health And Family Services Should Update The KASES System	93.563	0	See 10-CHFS-60.
FY 09	09-CHFS-85	The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices	10.551 10.561	0	See 10-CHFS-63.
FY 09	09-TC-89	The Kentucky Transportation Cabinet Should Adhere To Established Procedures To Ensure Compliance With The Davis Bacon Act	20.205	0	See 10-TC-72.
FY 08	08-CHFS-75	The Cabinet For Health And Family Services Should Ensure The Supporting Documentation From KASES Is Accurate And Reliable	93.563	0	See 10-CHFS-60.
FY 08	08-CHFS-79	The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards At Local Offices	10.551 10.561	0	See 10-CHFS-63.
FY 08	08-TC-84	The Kentucky Transportation Cabinet Should Adhere To Established Procedures To Ensure Compliance With The Davis-Bacon Act	20.205	0	See 10-TC-72.
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings to report in this category.					
<i>(4) Audit finding no longer valid or does not warrant further action:</i>					
FY 09	09-TC-88	The Kentucky Transportation Cabinet Should Implement Formal Policy And Procedures On Suspension And Debarment When Awarding Federal Contracts	20.205	0	Due to improvements, this finding is downgraded to an informal finding for FY 10. This finding is no longer required to be reported under Government Auditing Standards.

APPENDIX

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2010**

This report is available on the APA website, www.auditor.ky.gov in pdf format. For other requests, please contact Greg Giesler, Open Records Administrator, with the APA's office at (502) 564-5841 or Gregory.Giesler@auditor.ky.gov. If copies of the FY 10 CAFR are required, please contact Lori Flanery, Finance and Administration Cabinet Secretary, at (502) 564-4240.

The following is a list of individuals by state agency to contact regarding federal award findings listed in the Schedule of Findings and Questioned Costs or the Summary Schedule of Prior Audit Findings.

State Agency	Contact
Cabinet for Health and Family Services	Kelli Hill, Assistant Director Division of General Accounting Cabinet for Families and Health Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone (502) 564-8890
Department of Military Affairs	Charles R. Flynn, Chief Administrative Officer Division of Administrative Services Department of Military Affairs Boone National Guard Center 100 Minuteman Parkway, EOC Building Frankfort, KY 40601 Phone (502) 607-1545
Finance and Administration Cabinet	Robin Kinney, Executive Director Office of Administrative Services Finance and Administration Cabinet 702 Capitol Ave, Rm 183 Frankfort, KY 40601 Phone (502)-564-5781
Kentucky Department of Agriculture	Ann Smith, Director Division of Food Distribution Department of Agriculture 107 Corporate Drive Frankfort, KY 40601 (502)-573-0282
Transportation Cabinet	Alice Wilson, Executive Director Office of Audits Transportation Cabinet 200 Mero Street 4E Frankfort, KY 40622 Phone (502) 564-676

